

Quarterly Performance Review
of the **Banking System**
June 2010



State Bank of Pakistan
Banking Surveillance Department

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The review presents performance of the banking system on the basis of unaudited Quarterly Report of Condition (QRC) submitted by banks for the quarter ended June 30, 2010. Figures reported in graphs and tables are rounded but calculations and analysis are performed on un-rounded data.

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Quarterly Performance Review of the Banking System June 2010

Table 1.1: Selected numbers of Balance Sheet and Profit & Loss Statement

	(billion Rupees)						
	CY04	CY07	CY08	Jun-09	CY09	Mar-10	Jun-10
Total Assets	3,043	5,172	5,628	6,087	6,516	6,435	6,782
Investments (net)	679	1,276	1,087	1,409	1,737	1,787	1,893
Advances (net)	1,574	2,688	3,173	3,176	3,240	3,170	3,231
Deposits	2,393	3,854	4,218	4,563	4,786	4,774	5,128
Equity	202	544	563	623	660	660	668
Profit Before Tax (ytd)	52	107	63	48	81	29	59
Profit After Tax (ytd)	35	73	43	29	54	18	36
Provisioning Charges (ytd)	11	60	106	42	97	15	30
Non-Performing Loans	200	218	359	398	446	457	460
Non-Performing Loans (net)	59	30	109	119	134	133	123

Note: The statistics of profits and provision charges are on year-to-date (ytd) basis

1. Overview

The overall economic environment has been showing the signs of weakness since the latter half of 2008. The slowdown in economic activities and deterioration of borrowers' repayment capacity resulted in increased credit risk and significant growth in Non-performing Loans (NPLs). Banks accordingly adopted risk-averse strategy of assets allocation that incidentally emerged in the backdrop of high credit demand from the government for budgetary support, commodity operations and inter-corporate receivables of PSEs, and banking system's asset mix gradually shifted away from loans & advances to investments in government papers and public sector lending. Due to higher loan-loss charges and pressure on profit margins, the earnings of relatively small-sized banks have come under strain. However, after facing a transitory strain in the last quarter of CY08, liquidity profile of banks gradually eased off as their balance sheet composition gradually shifted towards liquid assets.

Though the business conditions remained tenuous¹ during the quarter under review, the banking system witnessed some letup in the buildup of credit risk as growth in NPLs abated because of deceleration in lending as

¹ While the GDP growth rate for FY2009-10 is expected to be around 4.1 percent vis-à-vis the target of 3.3 and anemic 1.2 percent growth in preceding FY2008-09, the building pressures on fiscal account and inflation are affecting improvements in economic recovery and external account. The situation is further aggravated by recent unusually high floods the economic impacts of which are yet to be assessed; these floods imply lapses on some economic targets including the targeted GDP growth rate for FY2010-11. However, on international front IMF in its recent World Economic Outlook of July 2010 has revised projections for the global economic growth for 2010 to around 4.5 percent (up from earlier estimates of 4.25 percent and 3.9 percent) vis-à-vis estimated contraction of 0.6 percent in 2009.

well as fresh delinquencies. However, banks maintained their risk-averse asset allocation strategy. Due to contained provisioning charges, the aggregate earnings of the system remained stable and in satisfactory ranges. The shift in asset mix towards government papers and assets carrying lower risk weights and decline in risk to capital base from any likely impairment in asset quality led to some improvements in solvency indicators. The liquidity position of the system further eased due to liquid-assets-driven growth that was adequately supported by inflow of deposits .

The asset base of the banking system increased at 5.4 percent to Rs6,782 billion compared with a contraction during previous quarter – corresponding to the established industry pattern for the second calendar quarter. The increase in asset base, which was well supported by growth in deposits, mainly occurred in banks balances, interbank lending, government papers and public sector commodity finance, while lending to private sector came down and moderated the overall growth in loan portfolio. Accordingly, the assets mix shifted towards assets carrying lower risk weights, reflecting the risk-averse strategy of banks that has been in vogue since later half of CY08. Besides SME and consumer, corporate segment also experienced decline in banks' lending; however lending to agriculture

Table 1.2: Highlights of the quarter ended Jun-10

	(in percent)						
	CY04	CY07	CY08	Jun-09	CY09	Mar-10	Jun-10
Asset Growth	19.7	18.8	8.8	6.0	15.8	(1.4)	5.4
Loans Growth	42.1	10.7	18.0	5.0	2.1	(2.4)	1.9
Deposit Growth	21.9	18.4	9.4	8.2	13.5	(0.3)	7.4
Investments Growth	(13.6)	53.1	(14.8)	8.5	59.9	1.9	5.9
Equity Growth	44.5	35.3	3.4	4.7	17.3	(0.2)	1.2
Capital Adequacy Ratio	10.5	12.3	12.2	13.5	14.0	13.7	13.9
Capital to Total Assets	6.7	10.5	10.0	10.2	10.1	10.3	9.9
NPLs to Loans (Gross)	11.6	7.6	10.5	11.5	12.6	13.1	12.9
Net NPLs to Net Loans	3.8	1.1	3.4	3.7	4.1	4.2	3.8
ROA (Before Tax)	1.9	2.2	1.2	1.7	1.3	1.8	1.8
ROE* (Before Tax)	30.5	1.5	11.4	16.0	13.2	17.8	17.7
Liquid Assets/ Total Deposits	46.5	45.1	37.7	41.7	44.5	43.7	45.3
Advances to Deposit Ratio	65.8	69.7	75.2	69.6	67.7	66.4	63.0

* Based on Average Equity & Surplus

Note: Growth rates for Jun-09, Mar-10, and Jun-10 are on quarterly basis

witnessed some liveliness during the quarter under review, while most of the leading sectors of the economy reduced their bank borrowings.

Due to the shift in asset mix, the RWA base of the system increased at relatively slower pace, and the accumulation of year-to-date earnings and equity injection by a couple of banks led to some improvement in risk-based CAR of the system to 13.9 percent vis-à-vis minimum requirement of 10 percent. However, the leverage of the system inched up due to faster increase in asset base compared to the growth in equity, though still remaining in comfortable range (see Table 1.2).

The quarter under review witnessed a significant deceleration in the rate of increase in NPLs signifying a let up in fresh delinquencies in the backdrop of slowdown in credit extension. The NPLs grew by 0.6 percent to Rs460 billion. In recent quarters, the NPLs of the banking system had increased at a significant rate i.e. an average quarterly rate of 9.7 percent from Jun-08 to Mar-10, and their level more than doubled since CY07. Marginal over-the-quarter growth in NPLs indicates a pause in the inflow of fresh NPLs and concomitant loan loss provisions. However, shift in NPLs from categories requiring partial provisioning to loss category, the loan loss charges exceeded the increase in NPLs. Accordingly, provisioning coverage of

NPLs improved to 73.2 percent and risk to banks' solvency lowered as the capital impairment (net NPLs to capital) ratio came down by 160 bps. Similarly, the loan infection ratios also lowered over the quarter.

The deceleration in NPLs and contained loan loss charges preserved the earnings of the system from any significant deterioration which had remained key feature in the recent quarters. The profit after tax (PAT) of Rs36 billion for first half of CY10 remained higher than the corresponding period of last year. The Return on Assets (ROA) stayed at last quarter's level i.e. 1.8 percent – slightly higher than the level of corresponding period of previous year, though over this period the asset composition of the system significantly shifted towards government papers which carry lower return as compared with loans & advances. The aggregate earnings of the system that have been concentrated in relatively large-sized banks for the last two years or so showed some improvement for individual banks, as the number of banks with positive bottom line remained higher than last year's statistics.

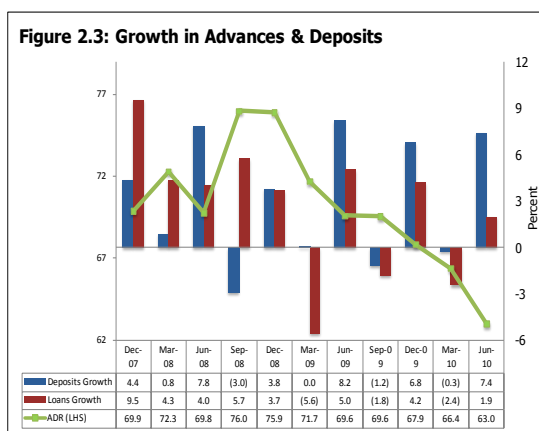
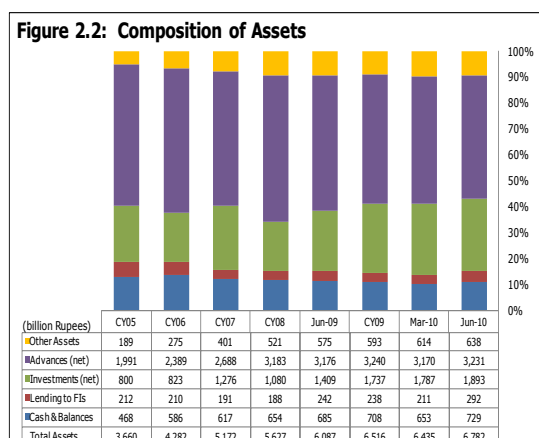
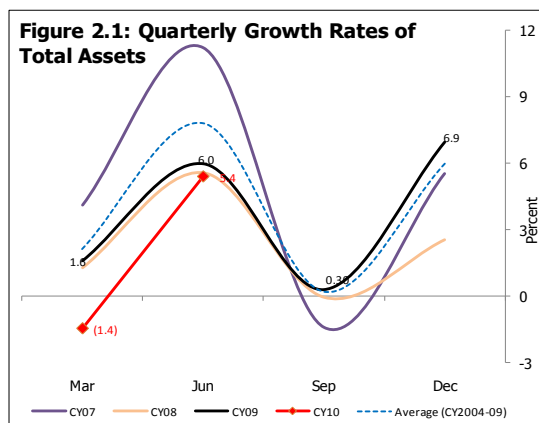
The strong growth in deposit base that was largely invested in liquid assets resulted in further improvement of liquidity profile of the system. The market-based liquidity of the system

also remained comfortable, though there was a slight inch up in the volatility of interbank interest rates due to banks' high preference for the government papers. The other financial assets' prices witnessed some adverse movements, though their volatility remained low; nevertheless, the overall market risk of the system remained limited due to contained market risk exposures.

In the coming months, the heightened credit risk and increased portfolio of NPLs will be a major challenge for the banking system. The stress test results, however, signify that the system has adequate capacity to withstand any extraordinary, plausible shocks in the key credit as well as market and liquidity risk factors, thus averting the genesis of any systemic crisis from such shocks. During the outgoing third calendar quarter, time honoured pattern of slowdown in demand for bank credit and Ramzan and pre-Eid heavy deposits withdrawals are likely to slacken the growth in asset base, though the system is expected to remain sufficiently liquid. However, recent unusually high floods are likely to influence the banks' performance in the coming quarters. Though their impacts and economic losses are yet to be precisely assessed, the floods could cause additional NPLs mainly in agriculture sector and affect credit activities in sectors allied to Kharif crop. Further they are likely to increase the government's demand for bank

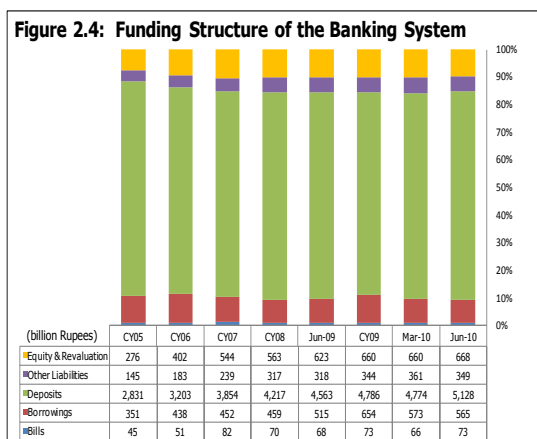
credit. The inflow of donations, grants and assistance and expenditures on the rescue of flood affectees and rehabilitation of infrastructure are likely to accelerate the growth of monetary aggregates and banks' fund base. The banking system in aggregate is expected to post steady profits, however, these profits are likely to remain concentrated in larger size banks having better earning profile and competitive advantage in raising the economical and stable funds.

2. Balance Sheet Analysis



The asset base of the banking system registered growth in Jun-10. This growth, which was well supported by increase in deposits, reflected the ongoing risk-averse approach of banks as they mainly focused on credit to public sector and interbank lendings. The increase in asset base was largely contributed by investment in government papers, bank balances & interbank lending and commodity finance, while lending to private sector contracted during the quarter. The growth rate though remained lower than the last few years' trend for the second calendar quarter which is generally marked with pickup in bank credit and growth in balance sheet, however this slackness also attributes to the effects of higher base which banks have built over the recent years of high economic growth (see Figure 2.1).

Over-the-quarter growth in investments, bank balances & interbank lending and commodity finance was in line with a general trend in banks' investment strategy that has been in vogue for the last two years or so, i.e. increased risk averseness of banks due to economic slowdown and heightened credit risk. In this backdrop, the public sector which is faced with fiscal needs including budgetary support, commodity finance, and financing of inter-corporate receivables became the major user of

**Table 2.1: Trends in Total Assets**

	(billion Rupees)							
	CY05	CY06	CY07	CY08	Jun-09	CY09	Mar-10	Jun-10
PSCBs	724	836	1,036	1,042	1,173	1,230	1,202	1,321
LPBs	2,483	3,102	3,836	4,220	4,539	4,905	4,845	5,073
FBs	339	224	173	234	241	241	252	249
CBs	3,547	4,162	5,044	5,496	5,953	6,376	6,299	6,643
SBs	113	120	127	130	134	140	136	139
All Banks	3,660	4,282	5,171	5,627	6,087	6,516	6,435	6,782

Table 2.2: Market share by Size of Banks

	(in percent)		
	Dec-09	Mar-10	Jun-10
Top 5 banks	50.8	49.9	51.0
6-10 Banks	22.2	22.7	22.2
11 to 20 Banks	16.4	16.5	15.9
20 to 29 Banks	4.8	4.8	5.1
All Local Comm. Banks	94.2	94.0	94.3
Foreign Banks	3.7	3.9	3.7
Specialized Banks	2.1	2.1	2.0

Table 2.3: Balance Sheet Composition by Size of Banks

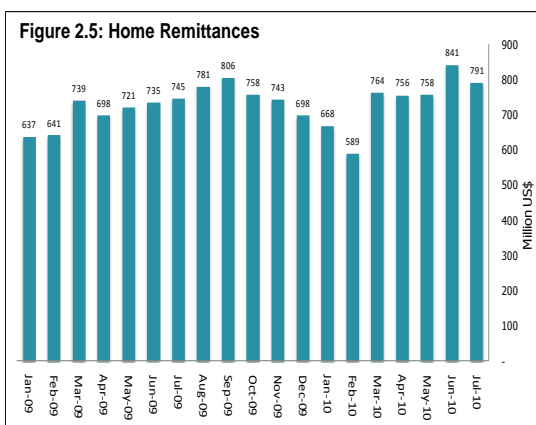
	(in percent)							
	Top 5 Banks	6-10 Banks	11 to 20 Banks	21-29 Banks	All Local Comm. Banks	Foreign Banks	Specialized Banks	All Banks
	Jun-10							
Cash & Bank	12.1	9.5	6.8	8.7	10.4	20.2	9.1	10.7
Lending to FIs	3.1	2.3	7.0	10.8	4.0	14.9	0.0	4.3
Investments	27.2	30.6	30.5	24.2	28.4	24.6	11.1	27.9
Advances	49.3	46.8	44.9	44.2	47.7	33.9	68.6	47.6
Other Assets	8.3	10.7	10.7	12.1	9.5	6.3	11.2	9.4
Total Assets	100	100	100	100	100	100	100	100
Bill Payables	1.0	1.2	1.3	1.0	1.1	1.4	0.5	1.1
Borrowings	4.5	7.4	15.4	9.3	7.3	6.4	60.6	8.3
Deposits	79.9	77.6	69.7	73.0	77.3	68.3	12.8	75.6
Other Liabilities	4.2	6.4	3.6	2.5	4.5	9.3	27.4	5.1
Net worth	10.5	7.5	10.0	14.2	9.9	14.6	(1.3)	9.9

bank credit. Consequently, the asset composition of banks started to gradually shift away from private sector credit to public sector investments and lending. Moreover, internal composition of advances tilted away from Small and Medium Enterprises (SMEs) and consumer to corporate segment which generally shows less vulnerability to economic downturns.

During the quarter under review, the deposit base of the system posted a strong growth of 7.4 percent vis-à-vis a 1.9 percent growth in loans & advances and 5.9 percent in investment portfolio. Accordingly, the asset and funding structure of the banking system transformed over the quarter (see Figure 2.2, 2.3 and 2.4)

Cross-Sectional Analysis & Market Structure:

Detailed analysis of the banking system along type of ownership reveals that all groups posted increase in asset base except for FBs which experienced a slight contraction during the quarter (see Table 2.1). On individual bank basis, most of the banks increased their asset base. However, the growth was particularly significant in top 5 banks, which also enjoy competitive edge in terms of outreach, broad capital base and longevity of presence in the market, as compared to medium and small-sized banks. Accordingly, the market share of top 5 banks inched up while the share



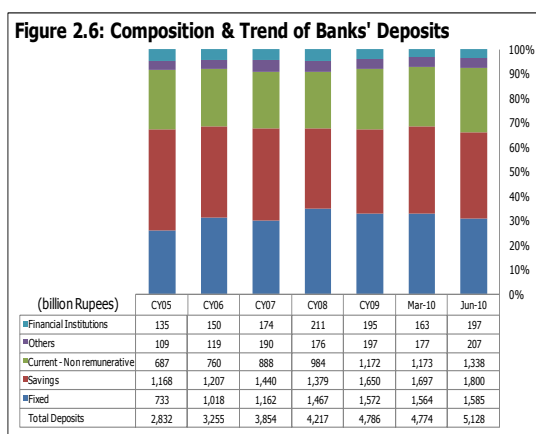
of the medium and small-sized banks came down. The extent of growth in different balance sheet components and asset-and-funding structures also varied among banks (see Table 2.2 & 2.3). Details of market structure along key factors and risk indicators are available at Annexure-III.

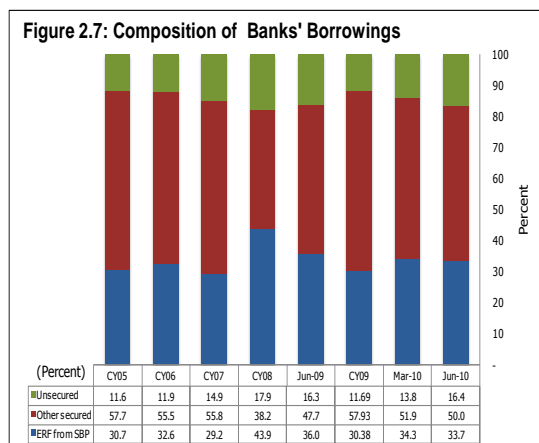
Growth & Dynamics of Different Components of Assets and Liabilities:

Table 2.4 : Investments in CDNS Schemes

	Outstanding (billion Rs)	Growth (Qtrly) %	%of Banks' Deposits
Jun-08	1,094	2.1	28.5
Sep-08	1,114	1.9	29.5
Dec-08	1,143	2.5	30.1
Mar-09	1,267	10.9	32.7
Jun-09	1,359	7.3	33.0
Sep-09	1,424	4.7	34.2
Dec-09	1,476	3.6	34.1
Mar-10	1,530	3.7	34.6
Jun-10	1,586	3.6	34.7

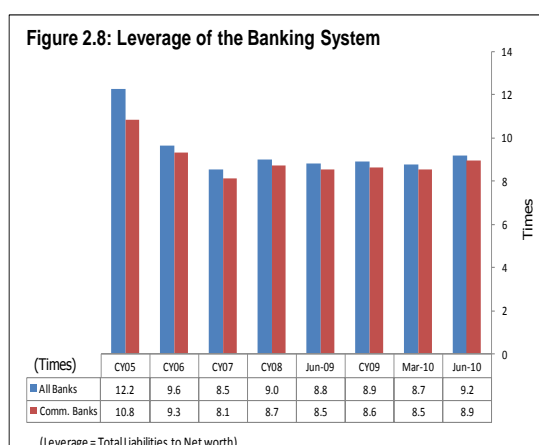
Deposits base of the banking system registered a growth of 7.4 percent (YoY growth of 12.4 percent) during Jun-10 as increase in lending and steady flow of foreign remittances led to a surge in the growth rate of monetary aggregates during the quarter under review, and the share of deposits in M2 also rose to around 76.9 percent (75.9 percent in Mar-10). One of the major sources of growth in monetary aggregates and banks' deposits i.e. home remittance remained steady, reaching the highest level in Jun-10 (see Figure 2.5). Nevertheless, major competitor of banks in mobilizing the savings i.e. investments in Central Directorate of National Savings' (CDNS) schemes continued to grow during the quarter as well (see Table 2.4). Detailed analysis of deposits indicates that all categories of deposits witnessed increase. However, the most prominent increase occurred in Current Accounts, followed by Savings Accounts and interbank non-





remunerative deposits (see Figure 2.6). The overall growth in deposits and shift therein largely emanated from top 5 banks which contributed around 68 percent of the over the quarter increase in banks' deposits vis-à-vis their market share of around 54 percent.

Since the increase in deposits surpassed growth in asset base, banks' reliance on ***borrowings*** came down over the quarter, and the average share of borrowings in overall fund base lowered to 8.8 percent as compared to 9.6 percent in previous quarter. Disaggregated analysis shows that the decline mainly occurred in secured borrowings both from SBP and interbank, while the unsecured borrowings particularly the call borrowings increased towards the end of quarter, though their share in overall borrowings remained low (see Figure 2.7)



During the quarter under review, ***shareholders' equity*** of the banking system grew on the back of steady profits and equity injections by a couple of banks. However, due to greater increase in asset base and reduction in revaluation surpluses arising from devaluation of investments, the leverage (liabilities to net worth ratio) of the banking system slightly inched up (see Figure 2.8).

Table 2.5: Composition of Banks' Advances (domestic operations)

	CY06	CY07	CY08	Jun-09	Dec-09	Mar-10	Jun-10
	(in percent)						
Public	8.1	7.6	10.8	17.4	16.9	15.0	17.7
Private	91.9	92.4	89.2	82.6	83.1	85.0	82.3

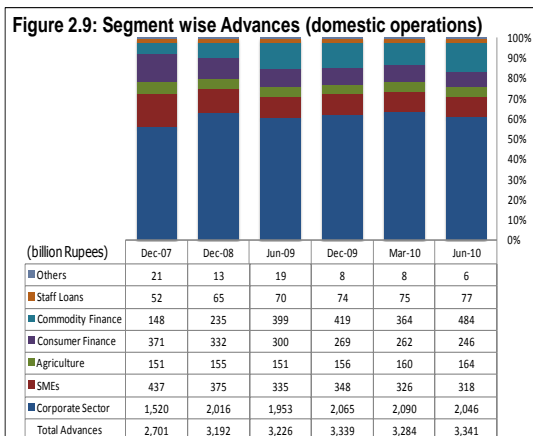


Table 2.6: End-use of Advances (domestic operations)

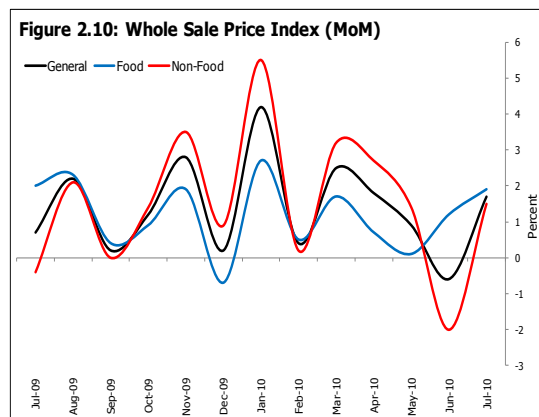
	Jun-09		Mar-10		Jun-10	
	Amount	Share	Amount	Share	Amount	Share
Fixed Investment	766.9	23.8	839.2	25.6	836.8	25.0
Corporate Sector	727.9	22.6	799.7	24.4	799.5	23.9
SMEs	39.0	1.2	39.4	1.2	37.3	1.1
Trade Finance	474.1	14.7	519.5	15.8	537.9	16.1
Corporate Sector	435.8	13.5	476.7	14.5	492.9	14.8
SMEs	38.3	1.2	42.8	1.3	45.0	1.3
Working Capital*	1,596.0	49.5	1,580.8	48.1	1,637.8	49.0
Corporate Sector	788.9	24.5	813.0	24.8	753.4	22.6
SMEs	257.9	8.0	243.6	7.4	236.2	7.1
Agriculture	150.5	4.7	160.2	4.9	164.1	4.9
Commodity Financing	398.7	12.4	364.0	11.1	484.2	14.5
Consumer Finance	299.8	9.3	261.9	8.0	245.5	7.3
Credit Cards	35.8	1.1	29.3	0.9	28.3	0.8
Auto Loans	79.1	2.5	67.4	2.1	64.0	1.9
Consumer Durable	0.2	0.01	0.1	0.0	0.3	0.0
Mortgage Loan	61.7	1.9	59.9	1.8	57.9	1.7
Other personal Loans	123.0	3.8	105.1	3.2	95.1	2.8
Staff Loans	69.7	2.2	74.6	2.3	76.6	2.3
Housing Finance	50.2	1.6	54.6	1.7	56.1	1.7
Others	19.4	0.6	20.1	0.6	20.5	0.6
Others	19.5	0.6	8.2	0.3	6.2	0.2
Total	3,225.9	100	3,284	100	3,341	100

* Agriculture and commodity finance are added in this category for analysis in this section only.

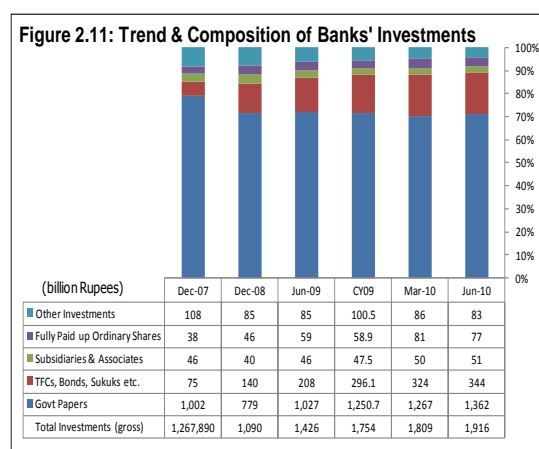
Advances of the banking system increased by 1.9 percent during the quarter under review. However, this growth was largely contributed by growth in public sector's commodity finance which increased by 51.6 percent. Lending to private sector, after witnessing a slight growth during last quarter came down, reflecting the trend that set in the last quarter of CY08 i.e. a gradual increase in public sector credit and contraction in lending to private sector. Accordingly, the share of public sector in overall lending portfolio of banks increased over the quarter (see Table 2.5)². Disaggregated analysis shows that Corporate, SME and Consumer Finance segments witnessed a combined decline of around 2.5 percent, however, this decline was more than covered by sharp increase in public sector commodity finance that was also accompanied by a moderate growth in Agriculture Finance. Accordingly, the segment wise composition of advances shifted towards commodity finance at the cost of other segments (see Figure 2.9). The end-use analysis of advances indicates decline in all major end-uses except for the commodity finance and agriculture (see Table 2.6).

Working capital and fixed investment lending witnessed slight contraction, while trade finance to both corporate and SME marginally increased over the

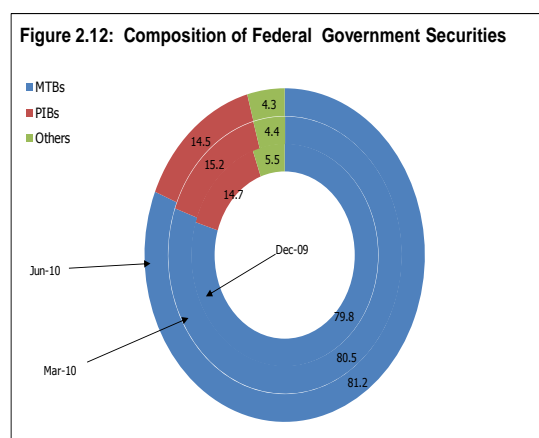
² The analysis of advances in the following paragraphs is based on domestic operations.



quarter. The reduction in working capital finance to the corporate and SMEs also reflects some effects of let up in Wholesale Price Index (WPI) towards the end of quarter (see Figure 2.10) signifying that lower value of inventories in rupee terms were required by businesses to maintain the same level of operations.



Investments of the banking system have significantly increased since the last quarter of 2008. After posting a moderate growth in last quarter, the investment portfolio of banks again increased at relatively fast rate of 5.9 percent. Major growth occurred in government papers followed by TFCs, Bonds & Sukuks, particularly the public sector bonds/Sukuks that constitute around three-fourth of banks' bond holdings. However, equity investments of banks contracted during the quarter (see Figure 2.11). The disaggregated analysis of government papers, which constitute around 71 percent of banks' total investments, shows a significant increase in short-term Market Treasury Bills (MTBs) while the growth in relatively longer-term Pakistan Investment Bonds (PIBs) remained moderate (see Figure 2.12).

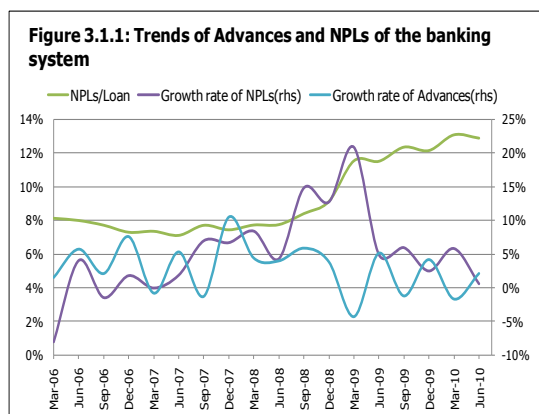


Going forward, the traditional slowdown in demand for bank credit that is the trademark of third calendar quarter and Ramazan and pre-Eid heavy deposits withdrawals are likely to moderate the

growth in asset base during outgoing quarter, though the system is expected to remain sufficiently liquid. The ongoing unusually severe floods, which have affected a significant part of the country and brought losses to both human lives and properties especially in Kharif crop areas, could put pressure on credit to allied sectors that generally picks up during last calendar quarter. On the other hand, due to associated pressures on government's fiscal account, bank credit to public sector is likely to grow in the coming months; and inflow of donations, grants and assistance and ensuing expenditures on the rescue of flood affectees and the rehabilitation of infrastructure will accelerate the growth of monetary aggregates and banks' asset and deposit base.

3. Risk Assessment of the Banking System

3.1. Credit Risk



The credit risk which remains the key concern facing the banking system, saw some let up during June-10 in the backdrop of modest increase in advances, mainly, public sector borrowings and negligible increase in NPLs. The lower NPL growth rate and steady maintenance of provisions by banks improved most of the asset quality indicators (see Figure 3.1.1 & 3.1.2).

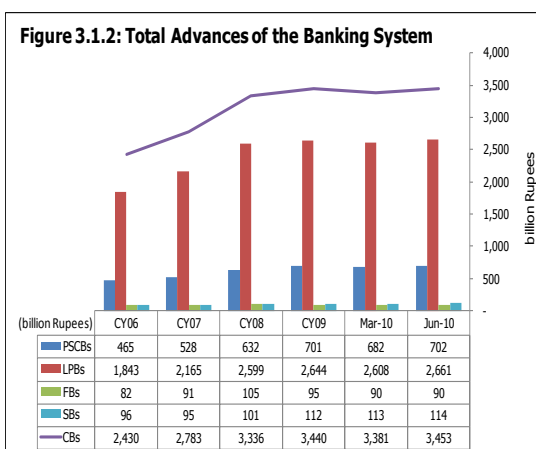
After a dip in the previous quarter, advances of the banking system registered a growth in June-10, albeit a modest one, thanks to government borrowings for public sector commodity operations. However, the continued macro-economic stresses like inflationary spiral, power crises and poor law & order situation continued its toll on the commercial activities and undertakings. This was evident from stagnant private sector credit figures of the previous quarter and the negative growth of 1.1 percent in the quarter under review (see Table 3.1.1). In fact, except for commodity finance all other public sector borrowings also declined.

Table 3.1.1: Composition of Banks' Advances

(amount in billion Rupees, growth in percent)

Period	Public Sector Loans			Private Sector Loans		
	Amount	Share	Growth	Amount	Share	Growth
Dec 07	241	8.4	15.7	2,637	91.6	13.8
Dec 08	380	11.1	58.0	3,056	88.9	16.0
Mar 09	368	11.2	(3.1)	2,918	88.8	(4.5)
Jun 09	596	17.3	62.0	2,859	82.7	(2.0)
Sep 09	591	17.3	(1.0)	2,822	82.7	(1.3)
Dec 09	617	17.4	5.0	2,938	82.6	4.0
Mar-10	551	15.8	(10.7)	2,943	84.2	0.2
Jun-10	657	18.4	19.2	2,911	81.6	(1.1)

The growth in advances was shared by almost all banking groups except for Foreign Banks (FBs), which maintained their previous quarter figures. Bank-wise



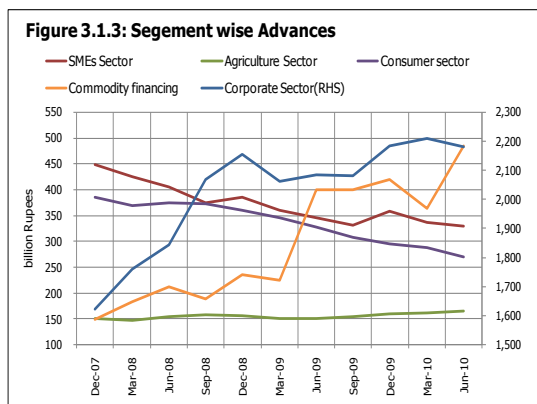
analysis showed that top 10 banks and PSCBs did most of the financing (see Figure 3.1.2). Owing to sizeable NPLs from commercial and consumer undertaking in the recent past, banks continued to shift their loan portfolio from private sector to public sector.

Growing commodity financing depicted two obvious dynamics for our banking system; as these loans are priced at commercial lending rates with very low risk of default, they tend to crowd out the private sector lending which usually carries higher credit risk. Secondly, under the present scenario, where external and local factors made it quite difficult for banks to find safe lending avenues, the commodity operations in fact provided a secure opportunity to utilize their excess liquidity.

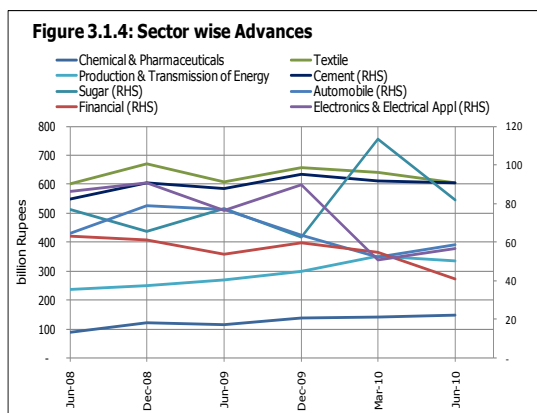
Table: 3.1.2. Loans & NPLs by end use

(amount in billion Rupees, ratio in percent)						
	Mar-10			Jun-10		
	Loans	NPLs	Ratio	Loans	NPLs	Ratio
Fixed Investment	897.8	133.0	14.8	900.3	131.9	14.6
Working Capital	1,635.2	212.3	13.0	1,699.2	217.6	12.8
Trade Finance	536.7	61.8	11.5	557.8	59.6	10.7
Others	424.2	50.2	11.8	410.3	50.8	12.4
Total	3,493.9	457.2	13.1	3,567.6	459.8	12.9

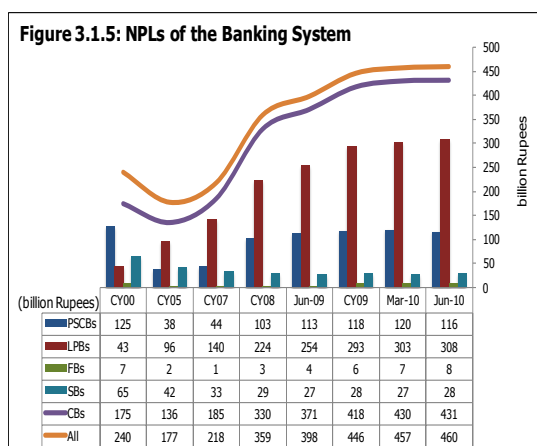
The analysis of private sector advances showed that only Trade Finance related loans for Corporate and SMEs managed to register nominal growth in addition to agriculture sector credit. On working capital front, growth in agricultural loans and commodity finance boosted the overall figures of working capital loans. However, decrease in working capital finance for corporate and SME, which indicates slowdown in production activities, lead to overall decline in portfolio of these segments. In the wake of imports related to Power generation projects along with a 7 percent rise in exports in the June quarter, the trade



finance loans gained some ground. The increased trade finance activity can also be gauged by an upsurge in domestic foreign currency loans which increased by more than 24 percent in June-10 (see Table 3.1.2). Loans to Consumer segment continued their down slide on lower consumer demand due to high inflation and lending rates coupled with risk averse approach by banks (see Figure 3.1.3).

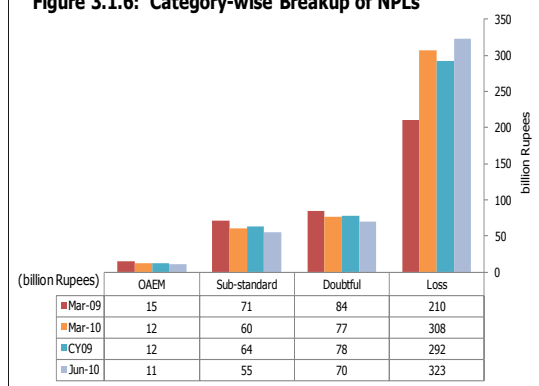


Sector-wise advances show that some Large Scale Manufacturing (LSM) continued to perform reasonably well. The Chemicals, Fertilizers and Pharmaceutical industries showed continuous growth in advances for the last couple of quarters. Automobile and Electronics also showed increased credit demand due to upsurge in the production and sales.



The subdued performance in credit off-take in the quarter under review was to some extent compensated by improvement on assets quality fronts. The NPLs' growth saw only a marginal growth of 0.57 percent; the lowest growth in any quarter in last couple of years (see Figure 3.1.5). The deceleration in NPLs showed the efforts put in by banks to follow up with their customers as recoveries against NPLs saw more than 31 percent rise QoQ. Additionally rescheduling and restructuring of the infected portfolio with prospects of recovery can be

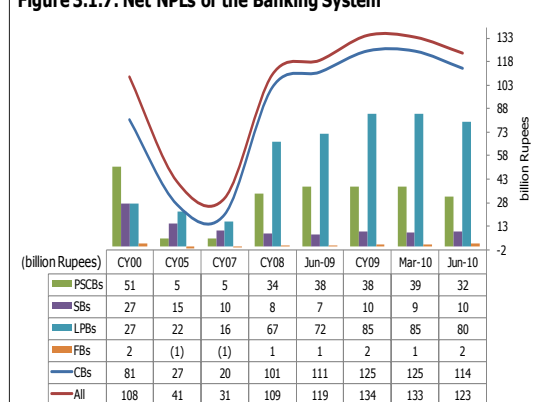
Figure 3.1.6: Category-wise Breakup of NPLs



another reason for pause in flow of NPLs.

The deceleration in flow of fresh NPLs led to decrease in classified loans in all categories except 'loss' category, which requires 100 percent provisioning. Resultantly, provisions increased by 3.9 percent and net NPLs declined by 7.6 percent (see Figures 3.1.6 & 3.1.8).

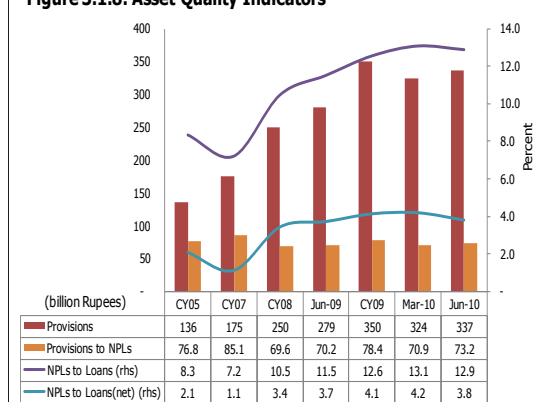
Figure 3.1.7: Net NPLs of the Banking System



Growth in gross advances along with a marginal increase in NPLs and increase in provisions resulted in decline in infection ratios of the banking system. Further, provisioning coverage of NPLs improved to 73.2 percent and risk to banks' solvency lowered as the capital impairment (net NPLs to capital) ratio came down (see Figure 3.1.7 & 3.1.8).

The Segment-wise analyses show decline in infection ratio of corporate sector mainly due to improvement in asset quality of production and transmission of energy (see Table 3.1.3 & 3.1.4). Moreover, infection ratio declined for agriculture and Commodity financing due to higher financing base while it deteriorated for SME and consumer segments, in the wake of socio economic factors already discussed above.

Figure 3.1.8: Asset Quality Indicators



Like increase in advances, PSCBs and top 10 banks remained the key source of let up in infected portfolio, while medium and small sized banks remained

Table 3.1.3: Segement wise advances and NPLs

(amount in billion Rupees, ratio in percent)

Items	Mar-10			Jun-10		
	Loans	NPLs	Ratio	Loans	NPLs	Ratio
Corporate Sector	2,208.22	292.48	13.25	2,179.38	289.22	13.27
SMEs Sector	336.44	83.04	24.68	328.51	89.01	27.09
Agriculture Sector	160.57	27.66	17.23	164.74	27.16	16.49
Consumer sector	287.42	38.89	13.53	270.23	39.79	14.73
i. Credit cards	29.99	4.23	14.10	28.90	4.60	15.93
ii. Auto loans	68.60	6.09	8.88	65.27	5.85	8.96
iii. Consumer durable	0.95	0.09	9.29	1.02	0.14	13.65
iv. Mortgage loans	75.32	12.97	17.22	73.12	13.62	18.63
v. Other personal loans	112.56	15.51	13.78	101.92	15.58	15.29
Commodity financing	364.42	3.86	1.06	484.63	3.68	0.76
Staff Loans	74.93	0.97	1.30	76.92	0.98	1.27
Others	61.89	10.33	16.70	63.19	10.00	15.83
Total	3,493.89	457.24	13.09	3,567.60	459.84	12.89

under stress with high infection ratios. The risk to solvency was more pronounced for top 6 to 20 banks as most of the banks under consolidation reside in this category. On the provisions coverage front large and medium sized banks are comfortably placed while the low ratio for smaller banks remains the cause of concern (see Table 3.1.5).

Table 3.1.4: Sector wise Advances and NPLs

(amount in billion Rupees, share in percent)

Item	Mar-10				Jun-10			
	Loans	Share in Loans (%)	NPLs	NPLs to Loan (%)	Loans	Share in Loans (%)	NPLs	NPLs to Loan (%)
Chemical & Pharmaceuticals	139.79	4.00	9.51	6.80	146.51	4.11	9.54	6.51
Agribusiness	157.55	4.51	16.65	10.57	208.13	5.83	15.69	7.54
Textile	640.33	18.33	136.08	21.25	603.72	16.92	140.35	23.25
Cement	91.44	2.62	14.12	15.44	90.91	2.55	14.24	15.66
Sugar	113.55	3.25	12.71	11.19	81.96	2.30	12.78	15.59
Shoes & Leather garments	21.39	0.61	2.89	13.49	22.09	0.62	2.85	12.90
Auto & Transportation equipment	52.46	1.50	10.42	19.86	58.54	1.64	11.10	18.96
Financial	54.84	1.57	5.27	9.62	41.07	1.15	6.00	14.60
Insurance	1.13	0.03	0.00	0.13	1.49	0.04	0.00	0.06
Electronics & Electrical	50.96	1.46	17.57	34.49	56.55	1.59	18.25	32.28
Production & transmission of energy	352.56	10.09	13.17	3.73	334.94	9.39	11.72	3.50
Individuals	466.08	13.34	61.38	13.17	456.29	12.79	62.42	13.68
Others	1,351.82	38.69	157.47	11.65	1,465.39	41.07	154.91	10.57
Total	3,493.89	100.00	457.24	13.09	3,567.60	100.00	459.84	12.89

Table: 3.1.5 Asset Quality Indicators**Jun-10**

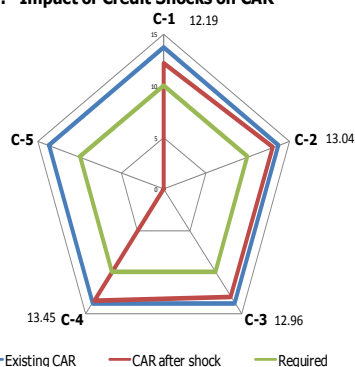
(in percent)

	Infection Ratio	Net Infection ratio	Provision Coverage	Net NPLs to Capital
Top 5	11.16	2.26	81.59	10.62
Top 6 to 10	13.11	4.91	65.80	30.69
Top 11 to 20	16.12	5.92	67.27	26.28
Top 21 to 29	14.41	6.70	57.37	19.38
All 29 banks	12.60	3.67	73.58	17.66
FBs	8.55	1.96	78.67	4.53
SBs	24.94	10.00	66.54	(534.95)
All Banks	12.89	3.81	73.23	18.42

The results of stress shocks to lending portfolio of banks show sufficient resilience of the system (see Figures 3.1.9 & 3.1.10). The impact varies across shock scenarios. The shock C-1, which implies increase in NPL in each classification category, remains the critical one; as it doubles the infection ratio and reduces the CAR of the system by 1.53 percentage points. Shocks C-2 to C-4, which envisages tightening of classification standards, deterioration of textile NPL and increased infection in consumer finance respectively, will moderately impact the asset quality ratio and CAR. The credit shock C-5 gauges level of NPL where CAR of the system becomes zero. A wide cushion between the present NPLs ratio i.e. 13.1 percent and the critical level i.e. 30.0 percent further substantiate resilience of the system as current level of infection remain far below the critical level.

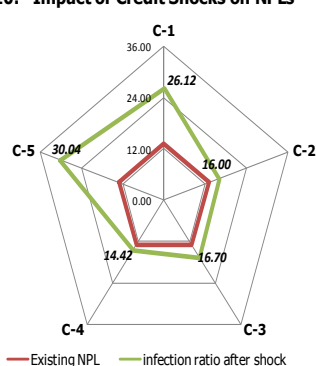
The Jun-10 provided banks much needed respite from the increasing burden of bad loans. However, the

Figure 3.1.9: Impact of Credit Shocks on CAR

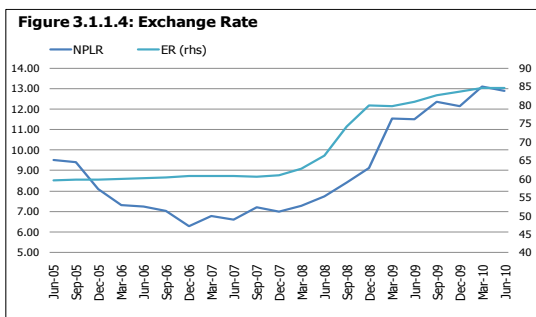
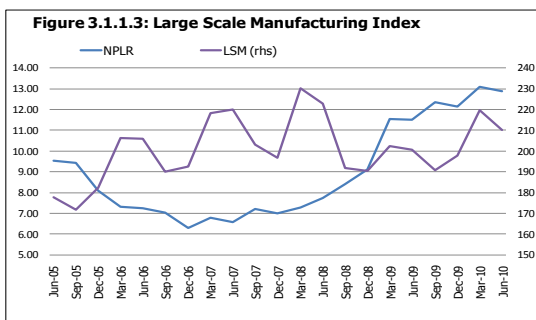
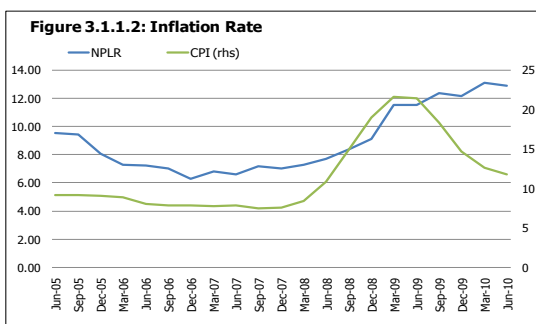
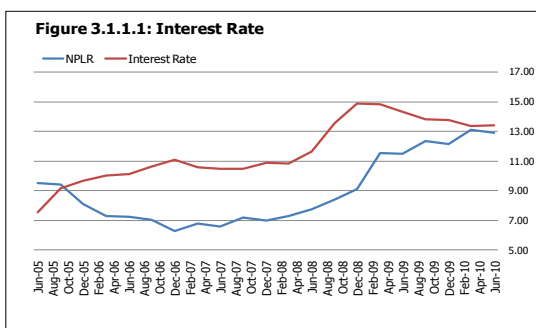


environment in which banks are working remains very challenging. The recent floods will impact the overall commerce and production activity of the country and likely to impact banks asset quality in times ahead. However, this challenging environment also provides opportunities for banks. It is imperative that banks should make arrangements for facilitating their existing borrowers and ensure smooth flow of credit to flood hit areas. Further, they need to develop innovative and special products to match the needs of upcoming challenges.

Figure 3.1.10: Impact of Credit Shocks on NPLs



3.1.1 Macroeconomic Stress Testing of Credit Risk



To assess the credit risk vulnerability of banks in Pakistan to severe but plausible macroeconomic shocks, a CPV (Credit Portfolio View) model based stress testing is performed on banks' credit exposures. The assessment assumes the economic conditions in June 2010 as the current macroeconomic environment and examines the effect of four individual and multiple shocks including a decline in large scale manufacturing (LSM), increase in lending rates (LR), depreciation of Pak rupee against US\$ (EXR) and increase in inflation rate (CPI).

Infection ratio of the banking system decreased from 13.1 percent in Mar-10 to 12.9 percent in Jun-10 period. The slight improvement in ratio was supported by a 2.1 percent increase in gross advances and a modest increase in NPLs (see Figure 3.1.1.1-3.1.1.4).

However, the fragile economic recovery that brought the meager gains already seems trampling under inflationary pressures and weak growth prospects. Further risks to economy emerging from multiple factors including recent floods are expected to severely impact agricultural, SME and related industrial sectors and overall asset quality of the banking sector.

The recent developments are expected to drastically reduce the growth rate of manufacturing and the overall GDP resulting in higher demand for imports and may impact the exchange rate. Moreover, the inflation rate for food items is also expected to remain higher in future. Keeping in view, the above developments, slower credit growth, NPLs build up is a more likely scenario in the coming months.

Table 3.1.1.1: Simulated NPL Ratios

	Baseline	LSM	LR	ER	CPI	CPI+LR	All
Average	13.49	13.72	15.13	14.46	13.98	15.60	16.77
75 P*	14.61	14.85	16.18	15.50	15.11	16.71	17.78
90 P*	15.63	15.86	17.15	16.39	16.15	17.65	18.69
95 P*	16.24	16.45	17.74	16.93	16.76	18.20	19.25
99 P*	17.36	17.57	18.80	18.06	17.90	19.32	20.26
99.5P*	17.72	18.00	19.24	18.42	18.28	19.65	20.64

P* represents percentile, CPI=Inflation, ER=Exchange rate, I=Interest rate, LSM=Large scale manufacturing.

Given the above underpinnings, macro stress testing of credit portfolio has been conducted. Results from CPV model suggest that under the baseline scenario, the infection ratio for Sep-10 is projected to be 13.49 percent. At lower probability level of 0.5 percent, the ratio is expected to increase beyond 17.72 percent (see Table 3.1.1.1).

In line with expectations, infection increases when adverse single and multiple factor shocks are applied to the projected baseline ratio. For instance, a negative shock to lending rate (LR) will increase the ratio to an average 15.13 percent from baseline. There is only one percent probability that it may rise beyond 19.24 percent in response to an extreme interest rate shock. Furthermore, in an extreme case of combined shock to all macroeconomic variables, infection ratio ranges from 16.77 percent to a staggering 20.64 percent. The shock applied to all the macroeconomic variables simultaneously projects a much deviation of the new distribution from the original baseline scenario (see Figure 3.1.1.5).

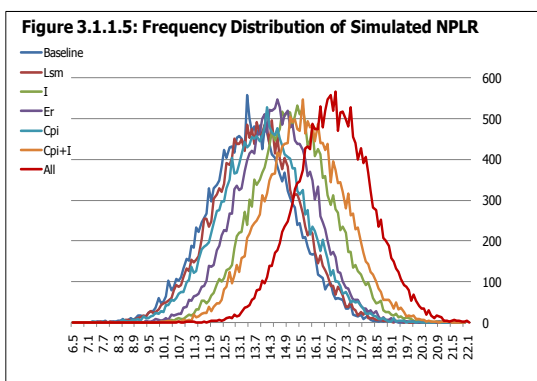


Table 3.1.1.2: Impact of Simulated NPL Ratios

NPLR	Change in Profitability*	Change in CAR	# of Banks with CAR<10
	Blns Rs.	Percent	
13.49	(21.40)	0.43	10
15.13	(80.00)	1.62	12
16.93	(144.00)	2.96	16
19.32	(229.40)	4.81	20
20.64	(276.50)	5.86	22

*change in profitability includes 100 percent provisioning

The projected increase in NPL ratio will negatively affect both profitability and solvency of the banking system. The simulation results of the model suggest deterioration in CAR below the required level in case of extreme lending rate and combined shock scenario (see Table 3.1.1.2).

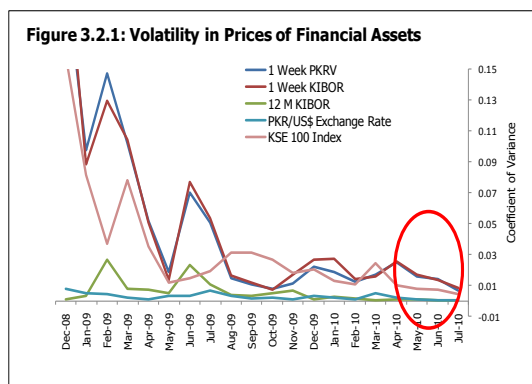
Table B1: variations in Actual and Forecasted NPL Ratios

	Actual	Forecast	Avg Variation	Absolute Variation	Point Variation	(A-F)^2
Jun-2008	7.75	7.72	0.03	0.03	0.00	0.00
Sep-2008	8.41	8.32	0.09	0.09	0.00	0.01
Dec-2008	9.13	8.85	0.28	0.28	0.04	0.08
Mar-2009	11.5	9.48	2.06	2.06	2.12	4.25
Jun-2009	11.5	12.48	-0.96	0.97	0.47	0.93
Sep-2009	12.4	12.04	0.32	0.32	0.05	0.10
Dec-2009	12.2	12.95	-0.80	0.80	0.32	0.63
Mar-2010	13.1	13.62	-0.52	0.52	0.14	0.27
Jun-2010	12.9	13.39	-0.49	0.49	0.12	0.24

Box 1: Efficacy of Macro Stress Testing Results

The results of macro stress test are being published in the QPR for about two years. It would be important to judge the efficacy of the model being employed for estimating the infection ratio. The macro stress variations between the actual ratios and the forecasted ratios calculated in past nine quarters are tabulated in Table B1. A comparison of actual and forecasted infection ratios indicates that the average absolute variation is only 0.62 percent from the actual results, which is quite insignificant. Point to point variation show a maximum absolute variation for Mar-2009 which resulted from liquidity stress faced by banking system in Sep-Dec-2008. The above results confirm the efficacy of the model being used for estimation of the NPLs to loan ratio for a quarter ahead.

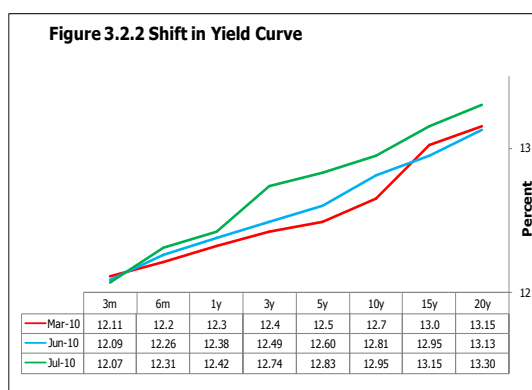
Figure 3.2.1: Volatility in Prices of Financial Assets



3.2. Market Risk

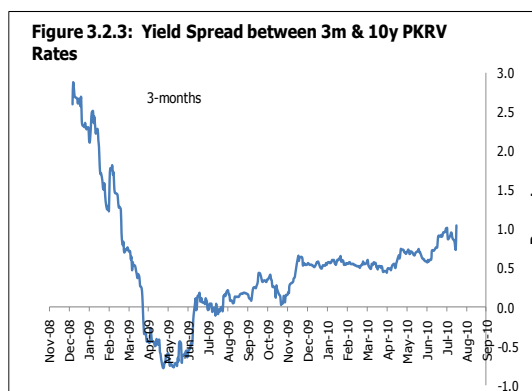
Prices of financial assets witnessed low volatilities during the Jun-10 (see Figure 3.2.1). Though the market risk factors experienced some adverse movements during the quarter - interest and exchange rates moved up and equity prices experienced some decline, the market risk of the banking system remained in manageable limits, owing to contained risk exposures.

Figure 3.2.2 Shift in Yield Curve



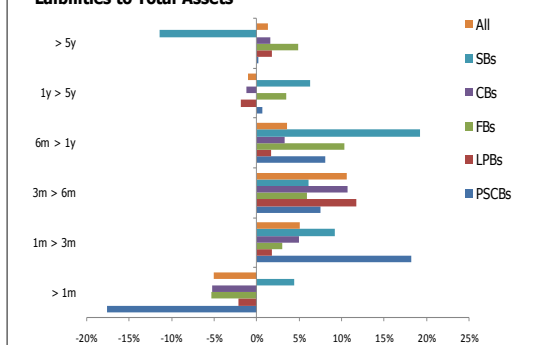
Interest rate risk of the banking system remained well within the comfortable range. In response to the inflationary expectations, the yield curve became steep during the quarter due to increase in the interest rates of longer term maturities. PKRV rates of 3 – 10 years maturities experienced an increase of 7 – 16 bps during Jun-10 (see Figure 3.2.2). Post quarter, the steepening was more pronounced as the interest rates for all the maturities exceeding 6 months saw a significant increase. Since the short term interest rates, which represent the liquidity condition, largely remained stable, the yield spread between the 3 months and 10 year registered an increase (see Figure 3.2.3). The higher yield spread is expected to attract long term position taking and bode well for the economic growth.

Figure 3.2.3: Yield Spread between 3m & 10y PKRV Rates



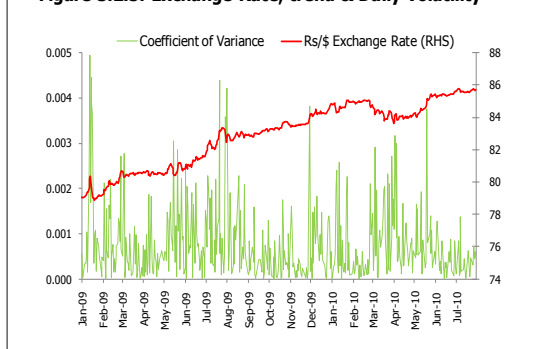
The yield spread between the indicative short term rate of 3 months and the

Figure 3.2.4 GAP between Rate Sensitive Assets and Liabilities to Total Assets



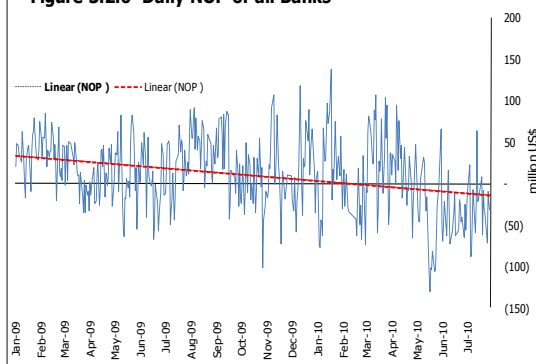
long term rate of 10 years continuously increased since the mid of last year, (when it was actually negative) though its level remained low. This lower yield spread offered less incentive for the market players to take long term positions, which reflected in the smaller gaps in the rate sensitive assets and liabilities in over-one-year maturity bucket (see Figure 3.2.4). These small gaps in the longer term maturities also signify contained interest rate exposure of the banking system.

Figure 3.2.5: Exchange Rate, trend & Daily Volatility



As such banks were generally exposed to interest rate risk for less than one year maturities only, as most of the mismatches were observed in these maturities. Negative repricing gaps were observed in less than one-month maturity bucket, due to preference of banks to place a big chunk of their non-contractual interest bearing deposits in this bucket. For over one-month to less than one-year maturities, the banks generally experienced significantly positive gaps due to inclusion of majority of KIBOR linked banking assets, requiring quarterly repricing.

Figure 3.2.6 Daily NOP of all Banks



The banks were exposed to **Exchange Rate risk** during the quarter on account of rising demand pressures for foreign currency. While foreign inflows in the form of workers remittances lent a hand to support rupee against dollar, the heavy import payments in petroleum group acted adversely thus

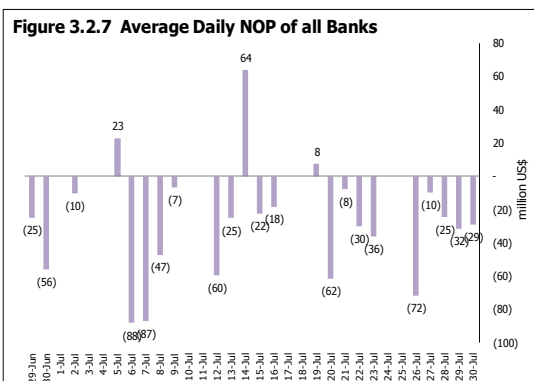
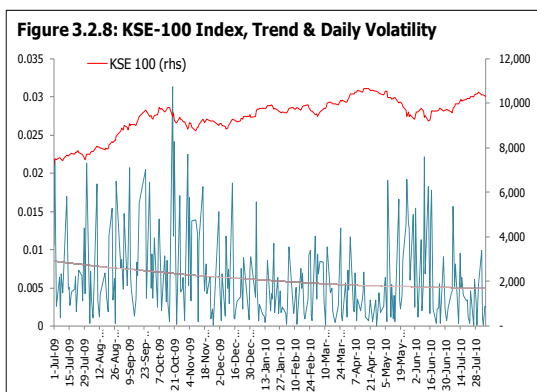


Table 3.2.1: Investments in Shares by the Banking System

	(billion Rupees)			
	Mar-10		Jun-10	
	Amount	% of Capital	Amount	% of Capital
Top 5	44.7	12.6	41.1	11.3
Banks 6-10	9.0	7.5	11.7	10.4
Banks 11-20	22.8	20.2	20.4	17.3
Banks 21-29	3.9	9.4	2.1	5.4
All Local Banks	80.1	12.8	75.3	11.9
Foreign Banks	0.1	0.2	0.1	0.2
All Commercial Banks	80.2	12.1	75.4	11.3
Specialized Banks	1.3	(105.5)	1.4	(78.0)
ALL BANKS	81.5	12.3	76.8	11.5



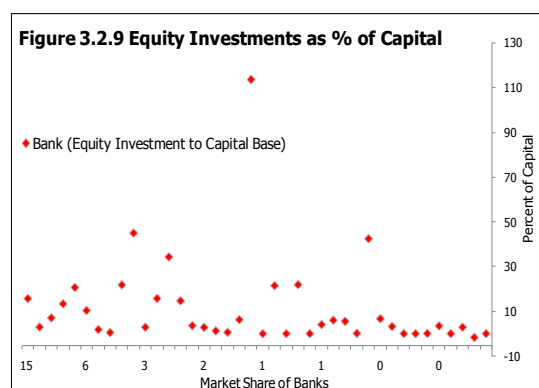
increasing the level of volatility in rupee dollar exchange rate during Jun-10 (see Figure 3.2.5). The rupee dollar exchange rate hovered around a wider bounds of 83.6 to 85.5 and experienced depreciation of 1.5 percent. In post quarter weeks, the demand pressures further intensified, thus forcing banks to become short in foreign currency (see Figures 3.2.6 & 3.2.7) and causing further depreciation in exchange rate in the following month.

Equity price risk arises due to the adverse movement in prices of equity investments that banks hold. During the quarter under review, though volatility in equity prices was low, equity prices experienced a gradual decline. The pre-budget expectations and post budget implementation of Capital Gain Tax (CGT) on stock market and Value Added Tax (VAT) kept the investors' interest in check. Resultantly, KSE-100 index dropped by 4 percent during the quarter (see Figure 3.2.8). On banks' balance sheets, the surplus on revaluation of shares turned into deficit after experiencing a decline in value of the banks' equity investments by around Rs 7.3 billion. Post quarter release of information of recovery in the key macro economic indicators i.e. improvement in current account balance and higher remittances and exports led to increase in equity prices. KSE-100 index showed a healthy growth of 8 percent in the month of Jul-10.

Table 3.2.2: Impact of Market Risk Shocks

	Number of Banks with CAR			CAR (Capital Adequacy Ratio)	
	< 0%	0% - 10%	10% <		
Pre-Shock	1	5	34		13.9
Shocks:				% point change in CAR	Adjusted CAR after Shock
IR-1	1	6	33	-0.23	13.67
IR-2	1	6	33	-0.29	13.61
ER-1	1	5	34	0.70	14.60
ER-2	1	5	34	-0.15	13.75
EQ-1	1	5	34	-0.25	13.65
EQ-2	1	5	34	-0.41	13.49

Equity exposure of the banks remained contained. In response to the decreasing index during the quarter, the banks further reduced their direct exposure to stock market and investment of banks in shares declined by Rs4.7 billion (see Table 3.2.1). Group wise, most of the banks shed their equity investments except for top 6-10 banks, which experienced a 30 percent increase in investment. This increase resulted from substantial acquisition of equity stocks by a bank in this category in settlement of its holding of a mutual fund's units.



Bank wise share in equity exposure shows that few banks carry large equity investments in stock market. Of the 40 banks, 11 banks, holding a market share of 39 percent, had equity investments exceeding the industry average of 11.5 percent (see Figure 3.2.9).

The stress test results showed resilience of the banking system towards the significant adverse movements in the market risk factors. Under a set of shocks to the interest rates, exchange rate and equity prices assumed under sensitivity analysis, the car is estimated to decline by less than half a percentage point (see Table 3.2.2), which can fairly be absorbed by the healthy capital base of the banking system.

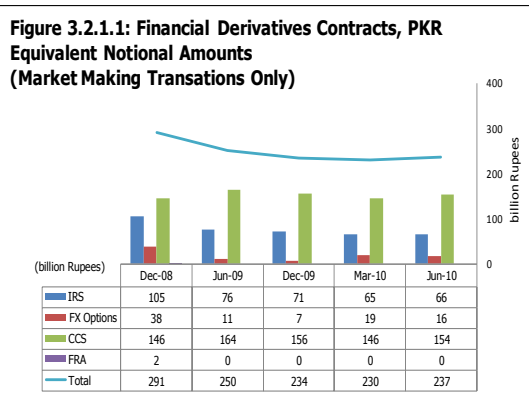
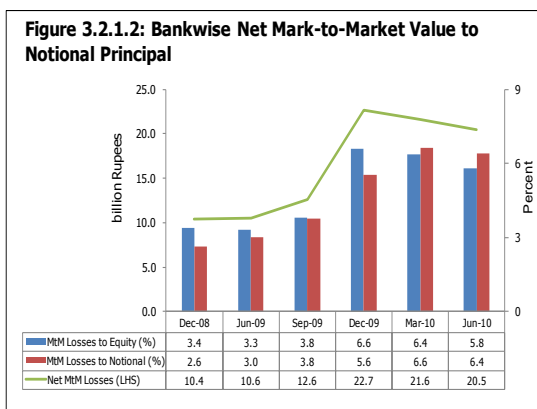


Table 3.2.1.1: Number of Derivative Contracts

Contracts	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
IRS	75	64	57	56	50
FX Options	249	38	193	312	298
CCS	255	263	257	248	256
FRA	-	-	-	-	-
Total	579	365	507	616	604



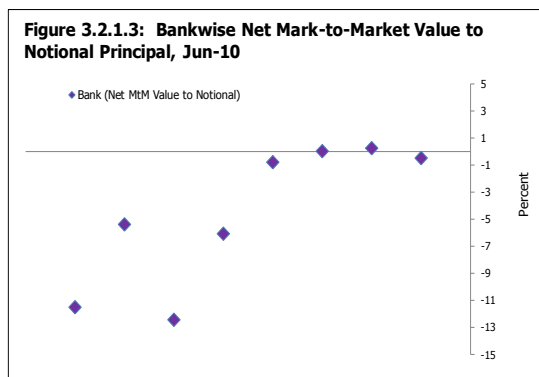
3.2.1 Analysis of Banks' Financial Derivative Business³

After experiencing a gradual decline for the last couple of years, the financial derivatives business volume witnessed a marginal increase in Jun-10 (see Figure 3.2.1.1). This is mainly attributable to the increase in Cross Currency Swaps (CCS), which, after experiencing a decline since Jun-09, witnessed a healthy increase of 5 percent (Rs8 billion).

Number of derivatives business contracts, however, experienced a marginal decline (see Table 3.2.1.1). This was due to a decline of the Interest Rate Swaps (IRS) and Foreign Exchange Options (FX Options), which cumulatively surpassed the increase made by the CCS. FX Options, the small denomination contracts, after experiencing significant growth during the last two quarters, witnessed a decline both in terms of volume and number of contracts during the Jun-10 quarter.

In terms of share, CCS hold the highest share (65 percent) followed by IRS, which, though represent less than 10 percent in number of derivatives contracts, contribute more than one quarter of the total derivatives business volume. The rest is held by the FX Options since no activity has been observed in Forward Rate Agreements (FRAs) since CY08.

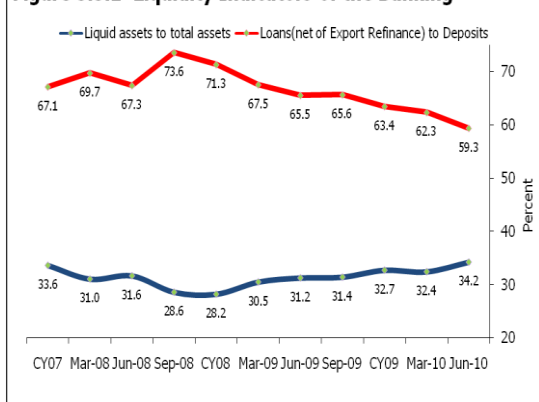
³ The analysis is based on the information of eight banks, including five Authorized Derivative Dealers, which are engaged in derivative business. For details in respect of background of derivative business in Pakistan, regulatory framework, and the features of permissible types of derivatives contracts; please refer to the Quarterly Performance Review of the Banking System for June 2009 quarter.



Mark-to-market (MtM) position, which represents the level of risk of these contracts, showed some improvement over the quarter (see Figure 3.2.1.2). Net MtM losses declined by Rs1.1 billion and net MtM losses in terms of both the equity and the notional amount improved. Bank wise, six out of the total eight banks have booked MtM losses on their derivatives portfolio (see Figure 3.2.1.3). Two of these banks have their net MtM losses in excess of 10 percent of the notional value of their derivatives contracts.

3.3. Liquidity Risk

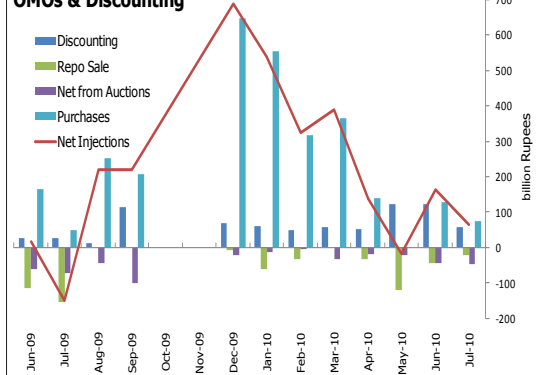
Figure 3.3.1 Liquidity Indicators of the Banking



The banking system has been enjoying enough liquidity for quite a few quarters. Key liquidity indicators further eased off during the quarter under review (see Figure 3.3.1). Post quarter, SBP raised benchmark policy rates by 50bps to contain aggregate pressures emanating mainly from expansionary fiscal position. The significant volume of liquidity available with the banking system fairly absorbed the impact of this rise in the benchmark policy rate.

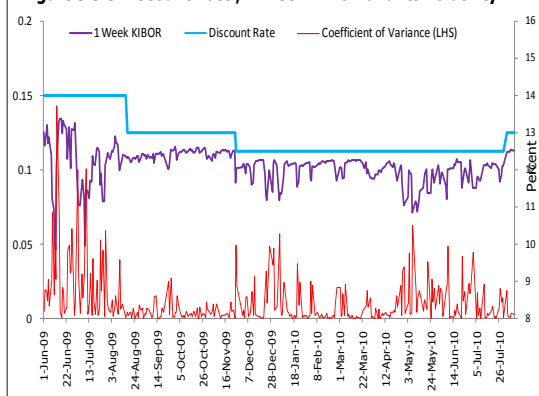
During the quarter under review, asset based liquidity of the banking system increased significantly on account of healthy growth of deposits which largely went into cash and near cash items. Deposits witnessed a healthy growth of 7.4 percent, whereas, advances showed a moderate growth (1.9 percent) which further eased off the level of loan to deposit ratio taking it to the lowest since year 2004. With the significant increase in liquid assets, the ratio of liquid assets to total assets increased further, taking it to the highest level during the last 5 years.

Figure 3.3.2 Injections into the Banking System through OMOs & Discounting



The eased off liquidity condition also reflected in the significant decline in the liquidity support provided by the SBP (see Figure 3.3.2). Though quarter under review observed net injection into the banking system during the quarter, the level of total injection was lowest (Jun-10: Rs281 billion, Mar-10: Rs1.2 trillion, Dec-09: Rs1.7 trillion) since Jun-09 quarter.

Figure 3.3.3 Discount Rate, 1 Week KIBOR and its Volatility



Interbank rates, an indicator of market based liquidity, experienced a decline during the quarter, thus widening the gap between the interbank rate and the policy rate (see

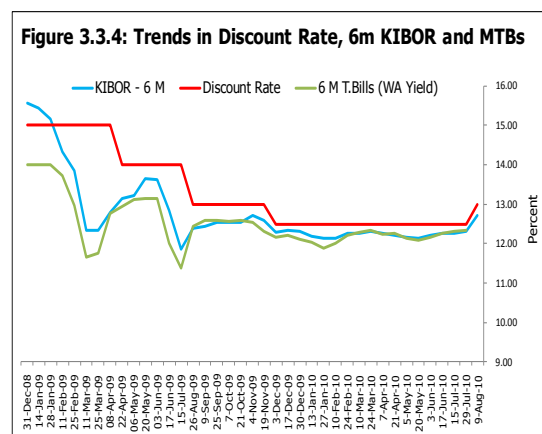
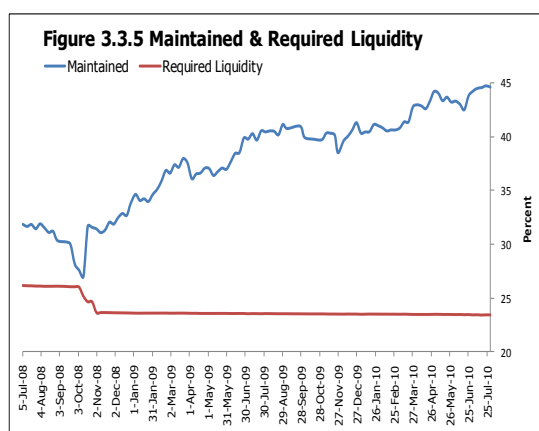


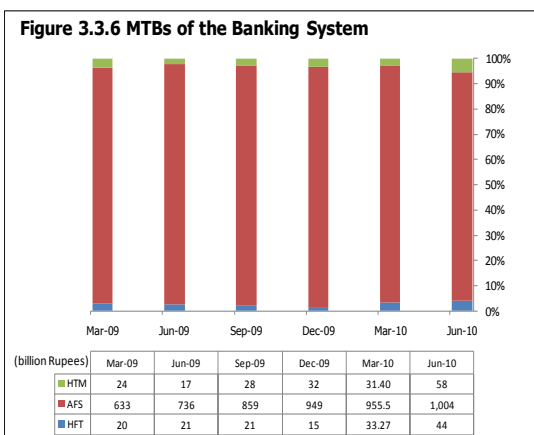
Figure 3.3.3) and representing eased off liquidity. Post quarter, the interbank rates, though remained lower than the policy rate, started moving upwards. With the increase in the policy rates by 50bps in August, the interbank rates increased by less than 40bps.

The level of risk free rates, which generally stayed lower than the interbank rates, affected the flow of funds to liquid assets. During the quarter, owing to the heavy demand of funds from government, the rates on government papers remained very close to interbank rates, and, in the following month the risk free rates stayed marginally higher than the interbank rate (see Figure 3.3.4). On finding better returns, the banks parked significant volume of their funds in investments availing these returns. Resultantly, investment in federal government securities witnessed a healthy growth of 7.5 percent (Rs94 billion) during the quarter. This healthy growth in investments in contrast to the moderate growth in advances signify that banks are enjoying option of earning healthy profits and equally getting benefit of carrying lower risk and keeping themselves liquid.



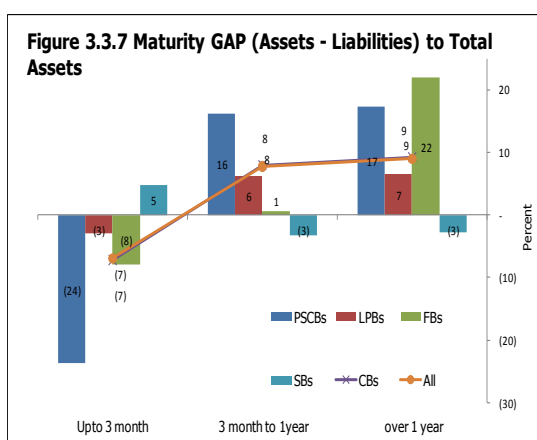
The growing volume of investments continued to feed the excess liquid reserves maintained by banks. The liquid assets maintained by banks are at historical high levels and are significantly in excess of the required reserves (see Figure 3.3.5).

Analysis of category wise holding of government securities revealed that banks hold majority of their investments in Held for Trading (HFT) and Available for Sale (AFS) categories, which allow more asset



based liquidity. Of the total Market Treasury Bills (MTBs) held by the banks, 95 percent are held in these two categories (see Figure 3.3.6).

Funding mismatches of the banking system remained in manageable range. The negative maturity gap in the 3 months band (see Figure 3.3.7), largely resulted from placement of non-contractual deposits in the near term maturities. Corollary to this, the gaps for the longer term maturity remained positive due to lesser amount of term deposits. Group wise, the maturity mismatches are high in case of PSCBs and FBs.



Results of the stress test show that generally, the banks are resilient towards liquidity shocks of significant deposit withdrawal for consecutive three days. After 4 and 5 days of consecutive withdrawals 3 & 4 banks would become illiquid respectively (see Table 3.3.1).

Summing up, the key indicators witnessed ample liquidity in the banking system during the June-10. However, the seasonal Ramadan/ Eid withdrawals and expected spending for the revival of economic activities in the flood affected areas may keep the liquidity somewhat constrained in the quarter ahead.

Table 3.3.1 Summary of Stress Test Results

Quarter ended:	Number of Banks Becoming Illiquid after Shock				
	1 day	2 days	3 days	4 days	5 days
Jun-10	0	0	0	3	4
Mar-10	0	0	0	2	5
Dec-09	0	0	0	2	5
Sep-09	0	0	0	3	6
Jun-09	0	0	0	2	4
Mar-09	0	0	1	3	6

4. Financial Soundness of the Banking System

4.1 Profitability

The banking system witnessed sustained earnings for the second quarter of CY10. The profit after tax of Rs 36 billion for first half of CY10 was higher than the corresponding period of the last year. The strong growth in net-interest income, deceleration in loan loss provisions and decline in non-interest income led to stable baseline profitability indicators (see Table 4.1.1 and 4.1.2).

Concentration of earnings once again underscored the fact that large sized banks are at a competitive advantage in terms of their outreach and access to economical and stable funds. Large sized banks remained the key contributor to earnings for the banking system, while the performance of the small-sized local private banks and SBs remained under stress. Importantly, more banks posted profits in the second half of CY10, compared to the results of CY09. Positive growth trends in earnings, supported by performance of the top tier banks, succeeded in keeping the ROA at previous quarter's level despite faster increase in the asset base. On the other hand, increased equity due to issue of bonus shares and equity injection for meeting MCR

Table 4.1.1: Profitability of Banking System

	(billion Rupees)							
	CY05	CY06	CY07	CY08	Jun-09	CY09	Mar-10	Jun-10
<i>Profit before tax</i>								
PSCBs	22.8	31.5	33.2	6.6	5.9	16.8	5.6	11.3
LPBs	60.5	85.6	69.5	52.5	39.7	60.5	23.1	45.0
FBs	11.6	6.3	2.4	0.0	0.5	(0.9)	0.1	0.7
CBs	94.9	123.5	105.2	59.0	46.0	76.5	28.8	57.0
SBs	(1.1)	0.1	1.7	4.2	1.7	4.2	0.4	1.7
All Banks	93.8	123.6	106.9	63.2	47.8	80.7	29.1	58.7
<i>Profit after tax</i>								
PSCBs	15.5	21.2	23.9	5.6	3.3	14.4	3.8	7.5
LPBs	41.1	59.1	47.3	34.7	24.4	39.3	14.4	27.6
FBs	8.0	4.3	1.1	0.6	0.1	(0.8)	0.0	0.4
CBs	64.6	84.6	72.2	41.0	27.9	52.8	18.3	35.6
SBs	(1.3)	(0.5)	0.9	2.3	0.8	1.6	(0.3)	0.3
All Banks	63.3	84.1	73.1	43.3	28.6	54.4	18.0	35.9

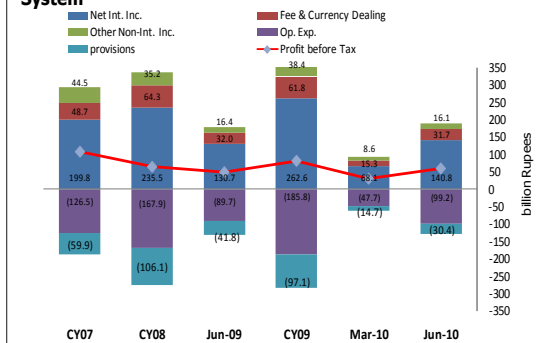
Table 4.1.2: Profitability Indicators

	(in percent)							
	CY05	CY06	CY07	CY08	Jun-09	CY09	Mar-10	Jun-10
<i>Before Tax ROA</i>								
PSCBs	3.3	4.0	3.5	0.6	0.6	1.5	1.9	1.8
LPBs	2.7	3.1	2.0	1.3	1.1	1.3	1.9	1.8
FBs	3.6	3.2	1.5	0.0	0.1	(0.3)	0.1	0.6
CBs	2.9	3.2	2.3	1.1	1.0	1.3	1.8	1.8
SBs	(1.0)	(1.3)	1.4	3.2	1.9	3.1	2.0	2.6
All Banks	2.8	3.1	2.2	1.2	1.0	1.3	1.8	1.8
<i>Before Tax ROE (based on Equity plus Surplus on Revaluation)</i>								
PSCBs	30.7	32.4	27.2	5.2	5.3	13.3	16.7	16.8
LPBs	40.1	36.2	20.4	12.9	11.0	13.2	18.8	18.2
FBs	38.9	30.0	13.1	0.0	0.5	(2.4)	0.7	3.8
CBs	37.2	34.7	21.8	10.6	9.2	12.4	17.4	17.1
SBs	-	-	-	-	0.0	0.0	-	-
All Banks	38.2	35.2	22.6	11.4	9.7	13.2	17.8	17.7

Data for CY07 has been restated due to introduction of Basel II.

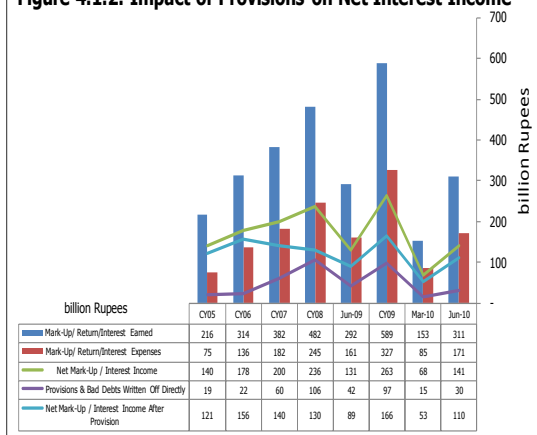
Table 4.1.3: Concentration of Earnings

	(in percent)			
	ROA (Before tax)	ROA (After tax)	ROE (Before tax)	ROE (After tax)
Top 5	3.0	1.9	28.1	17.9
Top 5 to 10	1.0	0.6	12.6	8.1
Top 11 to 20	0.2	0.1	2.0	0.7
Top 21 to 29	(1.9)	(1.5)	(11.5)	(9.5)
All 29 banks	1.8	1.1	17.9	11.2
FBs	0.6	0.4	3.8	2.5
SBs	2.4	0.5	(182.0)	(35.8)
All Banks	1.8	1.1	17.7	10.8

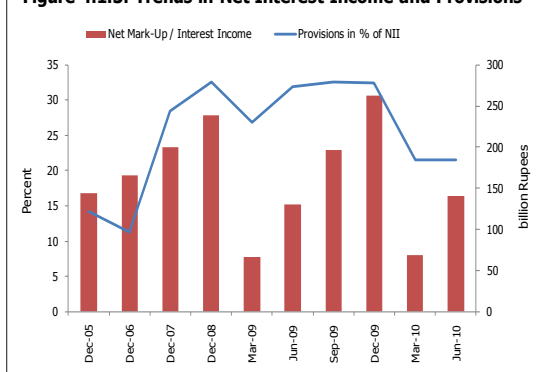
Figure 4.1.1: Profit & Loss Composition of the Banking System

resulted in slight decrease in ROE (see Table 4.1.1).

Interest income from investment continued to surge due to higher growth in investments (YoY growth of 34 percent) as compared to advances. Earnings from investments witnessed substantial increase of 43.5 percent YoY. However, no noticeable change was observed in the earning structure during Jun-10 (see Table 4.1.4).

Figure 4.1.2: Impact of Provisions on Net Interest Income

Healthy increase in interest income enhanced its share in gross income by 70 bps to 74.7 percent whereas, non-interest income observed reciprocal decrease to 25.3 percent. Analysis of components highlights that decline in share of later mainly resulted from fall in currency dealing income with meager decline in other income (see Figure 4.1.1).

Figure 4.1.3: Trends in Net Interest Income and Provisions

Accumulation of loan loss provisions decelerated, mainly on account of sluggish growth in advances, marginal increase in NPLs and FSV benefit⁴ allowed on collateral, was another important factor which contributed to healthy earnings of the system. Loan loss provisions recorded YoY decrease of 27.3 percent in Jun-10 (see Figure 4.1.2). Accordingly, provisions as a percentage of net interest income observed a decline of 10 percentage

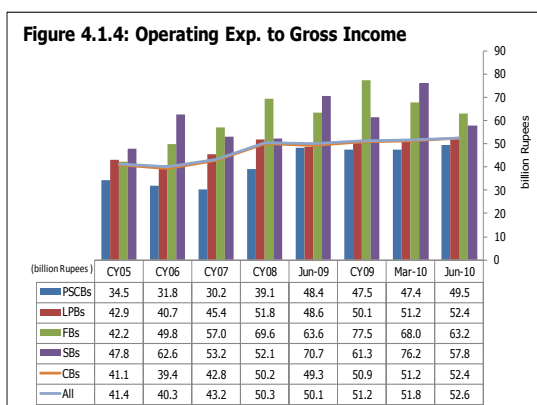
⁴ See BSD Circular No. 10 of 2009 on Amendments in Prudential Regulations-Provisioning for Loans and Advances.

Table 4.1.4: Mark-up / Return / Interest Earned

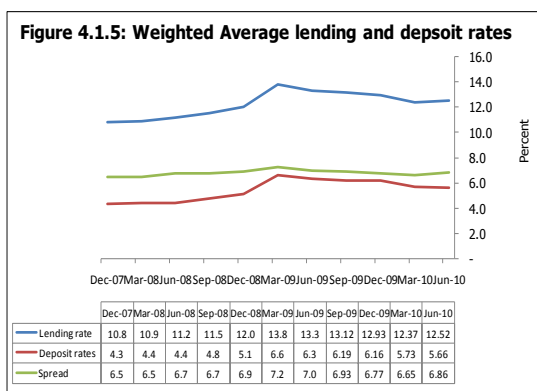
Items	Dec-07		Dec-08		Jun-09		Dec-09		Mar-10		Jun-10	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans & advances	273.8	71.3	359.0	74.2	210.7	72.3	412.1	69.7	100.1	65.3	203.0	65.2
Investments	80.6	21.0	92.7	19.1	65.3	22.4	148.4	25.1	45.9	30.0	93.5	30.0
Deposits, repo and others	29.8	7.7	32.4	6.7	15.6	5.3	30.6	5.2	7.1	4.7	15.0	4.8
Total	384.1	100	484.1	100	291.5	100	591.1	100	153.2	100	311.5	100

points to 22 percent in first half of CY10 over corresponding period of last year (see Figure 4.1.3).

Operating expenses as a percentage of gross income continued its growth due to increase in administrative expenses including salaries and other business related costs. Group-wise analysis depicts decline in ratio for SBs and FBs, while increase for other bank categories (see Figure 4.1.4).



After showing a downward trend for more than a year, spread increased by 22 bps to 6.86 percent in Jun-10. The spread surge resulted as weighted average lending⁵ rate (WALR) rebounded to 12.52 percent due to an upward shift in yield curve, making an upward revision of 14 bps in WALR. Whereas downward trend for weighted average deposit rates (WADR) continued its momentum further by 7 bps. The decrease in the WADR resulted from significant increase in low cost current and saving account (CASA) deposits during the quarter. Resultantly, as a cumulative impact, spread witnessed an increase during the quarter under review (see Figure 4.1.5).



Comparison of net income from advances and deposits with corresponding period of the last year

⁵ The weighted average rates are based on the data on mark-up/interest income and expense on advances and customer deposits respectively reported in the QRC for March, 2008. In the previous reports, data on interest rate published in monthly statistical bulletin had been used.

Table 4.1.5: Sources of change in Net Income (on advances and deposits)
(billion Rupees)

	Interest Income Rate Variance	Interest Income Volume Variance	Deposit Rate Rate Variance	Deposit Rate Volume Variance	Total Variance	Net Income (Int. Earned - Deposit Exp)
Jun-07	11.3	18.4	(11.8)	(8.9)	9.0	63.3
Jun-08	(0.5)	22.0	(1.9)	(12.0)	7.6	70.9
Jun-09	52.3	21.3	(45.1)	(10.2)	18.3	73.6
Jun-10	(13.2)	5.5	16.5	(17.8)	(9.1)	64.5

provided insight into sources of change in net income. The net income from advances and deposits, witnessed a decline of Rs9.1 billion (see Table 4.1.5). Analysis of sources of changes in net income reveals that overall interest income from advances decreased; the decrease in income due to rate variance outweighed the increase in income due to increase in volume of advances. The very reason for this change is the shift in lending portfolio from high return segments like SME and consumers to corporate sector which usually borrows funds at relatively lower rates. Banks' managed to save paying out on deposits as share of low cost deposits (CASA) witnessed an increase, thus decreasing the deposit returns. However, volume based payout to the deposits outweighed rate based saving due to YoY 47 percent growth in customers' remunerative accounts. Accordingly, decrease in interest income on advances and marginal pay out on deposits led to overall decrease in net income from advances and deposits in the first half of CY10 compared to corresponding period of the previous year.

Table 4.1.6: Percentage Breakdown of Banking System's Total Assets (TA) by ROA

	CY07		CY08		Jun-09		CY09		Mar-10		Jun-10	
ROA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA
0 and below	10	8.5	16	14.5	18	13.1	18	12.7	15	10.6	17	15.7
0 to 0.5	2	2.4	3	10.2	3	6.3	8	21.6	6	6.2	5	2.8
0.5 to 1	4	1.9	5	8.2	3	9.4	4	5.3	4	11.1	2	9.8
1.0 to 1.5	10	34.9	4	5.7	6	19.1	3	17.0	2	2.3	2	0.6
1.5 and Over	13	52.3	12	61.5	10	52.1	7	43.4	13	69.7	14	71.2

Large-sized banks continued their dominance in ROA (before tax) and the number of banks having ROA of 1.5 percent or above also increased further to 14 with 71.2 percent market share in terms of total assets. On the contrary, small-sized banks still face many challenges which hamper their growth and earning potential (see Table 4.1.6).

Table 4.2.1: Capital Adequacy Indicators

	(In percent)					
	CY07	CY08	Jun-09	CY09	Mar-10	Jun-10
Capital Adequacy Ratio (CAR)						
PSCBs	17.8	13.2	14.5	15.1	13.7	13.9
LPBs	12.7	12.1	13.3	13.9	13.8	14.0
FBs	13.5	21.8	23.7	23.0	22.4	22.7
CBs	13.7	12.7	14.0	14.5	14.1	14.3
SBs	(6.2)	(4.9)	(3.4)	(1.5)	(0.5)	(1.4)
All banks	13.2	12.3	13.5	14.0	13.7	13.9
Tier 1 Capital to RWA						
PSCBs	13.0	11.0	12.0	12.6	11.6	11.9
LPBs	10.5	10.2	11.2	11.4	11.4	11.6
FBs	12.9	21.3	23.1	22.5	22.0	22.3
CBs	11.1	10.8	11.8	12.0	11.8	12.1
SBs	(11.9)	(10.1)	(7.4)	(5.8)	(5.3)	(5.5)
All banks	10.5	10.2	11.3	11.6	11.4	11.6
Capital to Total Assets						
PSCBs	13.7	10.7	10.9	11.3	11.1	11.3
LPBs	10.2	10.0	10.2	9.9	10.2	9.8
FBs	11.2	14.5	14.8	14.8	14.0	14.6
CBs	10.9	10.3	10.5	10.4	10.5	10.0
SBs	(5.5)	(3.2)	(2.5)	(1.7)	(0.9)	(1.2)
All banks	10.5	10.0	10.2	10.1	10.3	9.8

Table 4.2.2: Category-wise Solvency Ratios Jun-10

(percent)	Capital to RWA	Tier1 to RWA	Capital to Assets
Top 5	15.3	12.5	10.5
Top 5 to 10	11.1	8.4	7.5
Top 11 to 20	11.6	10.9	10.1
Top 21 to 29	22.9	22.7	15.1
All 29 banks	14.0	11.7	9.9
FBs	22.7	22.3	14.6
SBs	(1.4)	(5.5)	(1.2)
All Banks	13.9	11.6	9.8

4.2 Solvency⁶

Solvency position of the banking system witnessed improvement during the quarter under review. Increase in capital base of the banking system on account of healthy profit accumulation and capital injections, and marginal increase in RWA, due to majority of the financing in zero risk weight assets, enhanced the CAR of banks by 20 bps to 13.9 percent for Jun-10 quarter (see Table 4.2.1).

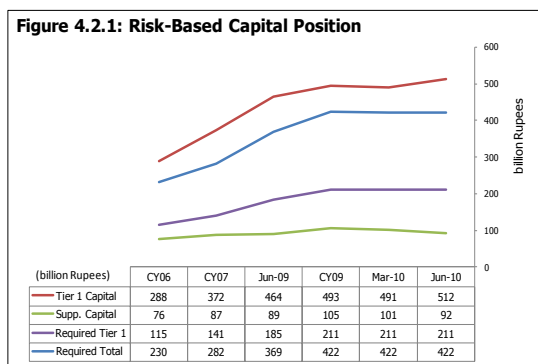
The CAR and other solvency indicators improved for all categories of banks except for specialized banks, where it continues to be negative (see Table 4.2.2 and 4.2.3). The top 5 banks' CAR remained above the industry average at the back of strong capital base and continue to be the main source of strong solvency positions of the system. The ratio of top 5 banks in capital to RWA increased from 14.8 to 15.3 percent over the quarter. The next two tiers i.e. 5 to 10 and 11 to 20 has CAR above the required level of 10 percent, though less than industry average. The ratio around the required level indicates effective utilization of capital by the middle tier banks. The last category i.e. 21-29 has CAR above 20 percent which represent that banks are either small sized or recently established, and trying to establish their presence in the market. The high ratio in case of foreign banks also highlights selective business activity with limited risk profile.

⁶ The above discussion is based on the CAR calculations on Basel-II framework. Except for three SBs which are reporting on Basel-I reporting formats, all other banks have reported on Basel II. These three banks hold 0.4 percent of the banking systems assets.

Table 4.2.3: Concentration Analysis of Solvency Indicators

	(In percent)			
	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Capital to Risk Weighted Assets				
Jun-09	14.4	13.5	13.4	13.5
Dec-09	15.2	14.5	14.1	14.1
Mar-10	14.8	14.1	13.7	13.7
Jun-10	15.3	14.1	13.6	13.9
Tier 1 Capital to RWA				
Jun-09	11.7	11.0	11.1	11.3
Dec-09	12.3	11.5	11.5	11.6
Mar-10	12.0	11.2	11.2	11.4
Jun-10	12.5	11.4	11.5	11.6
Net Worth to Total Assets				
Jun-09	10.3	9.7	10.1	10.2
Dec-09	10.8	10.0	10.0	10.1
Mar-10	11.0	10.1	10.2	10.3
Jun-10	10.5	9.6	9.8	9.8

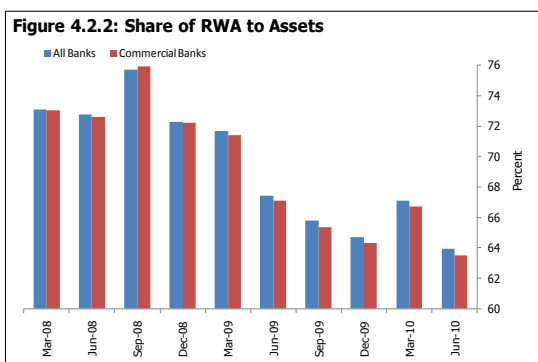
Analysis of the components of the CAR shows that the total capital increased by 1.8 percent in Jun-10. Tier1 capital, which observed a marginal decline in Mar-10, contributed most of the increase in eligible capital (see Figure 4.2.1). Tier1 capital increased its share in eligible capital to 84 percent, on account of 6.7 percent increase in paid up capital for meeting MCR and 18 percent increase in accumulated profits. Tier2 capital declined over the quarter due to reduction in revaluation reserves and subordinated debt.



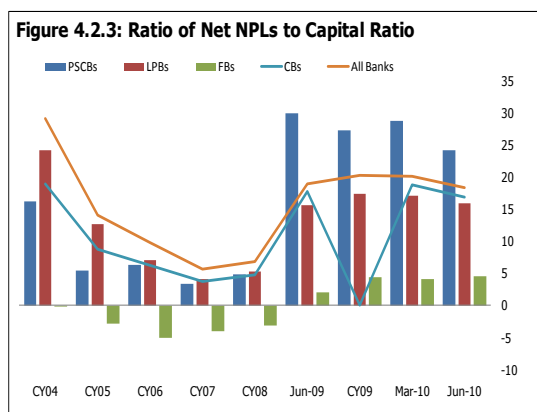
The RWA saw a marginal increase of 0.5 percent over the quarter (see Table 4.2.4) despite 1.9 percent increase in advances. As highlighted in Section 3.1 on Credit Risk, most of the banks' lending went into public sector commodity operations, while lending to private sector declined. As a result Credit Risk Weighted Assets (CRWA), which constitutes 80.4 percent of total risk weighted assets, saw a negligible increase (see Figure 4.2.2). Similarly, most of the investments took place in Federal Government Securities. As a result Market Risk Weighted Assets (MRWA) increased by 1 percent over the quarter on account of rising interest rate risk and equity risk on banks' portfolio.

Table 4.2.4: Risk Weighted Assets

	(amount in billion rupees, share in percent)					
	Jun-09		Mar-10		Jun-10	
	Amount	Share	Amount	Share	Amount	Share
CRWA	3,397.0	82.8	3,471.3	80.4	3,490.7	80.4
MRWA	172.0	4.2	241.1	5.6	243.6	5.6
ORWA	535.0	13.0	604.9	14.0	604.9	14.0
Total (RWA)	4,104.0	100	4,317.3	100	4,339.2	100



Another aspect of credit risk affecting the solvency indicators of the banks is Net NPLs to Capital ratios, indicating fraction of banks' equity which can be wiped out by loan losses. The ratio has significantly worsened since CY07. However, increase in provisions and capital base pacified the impact of infected loan portfolio on the capital levels of the banks (see Figure 4.2.3).



The disaggregated analysis of individual bank level CAR indicates no change in the number of banks that are not meeting minimum level of CAR (10 percent). However, number of high CAR banks (above 15 percent) declined over the quarter (see Table 4.2.5). Of the six non-compliant banks, 3 are either in the process of merger or bringing in new equity and are expected to meet CAR requirements in coming quarters. The remaining 3 banks, with majority public sector shareholding are in the process of restructuring.

Table 4.2.5: Distribution of Banks by CAR

	Total	(In percent)		
		less than 10	10 to 15	Over 15
Mar-08	39	10	11	18
Jun-08	39	11	9	19
Sep-08	40	13	7	20
CY08	40	9	10	21
Mar-09	40	5	13	22
Jun-09	40	7	12	21
Sep-09	40	6	13	21
CY09	40	6	15	19
Mar-10	40	6	13	21
Jun-10	40	6	15	19

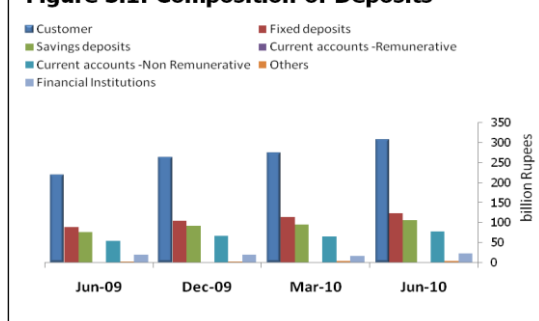
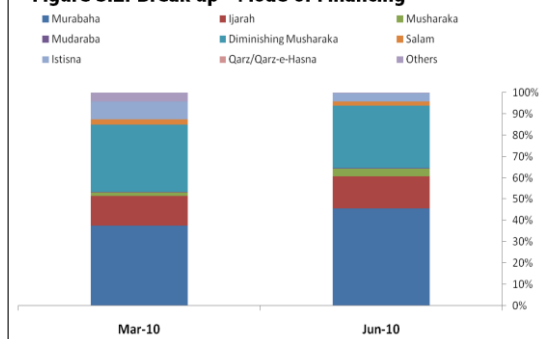
Although banks in Pakistan are at comfortable solvency levels, however, slow macroeconomic recovery and impact of the floods on agriculture, SME and allied industries will bring the solvency of the system under some stress in coming quarters.

Table 5.1: Islamic Banking Growth over quarters

	(in percent)			
	Jun-09	Dec-09	Mar-10	Jun-10
Financing	3.0	14.7	1.5	1.1
Investment	9.3	11.7	0.9	7.0
Asset	12.4	13.3	1.3	10.7
Equity	6.8	4.5	0.8	1.5
Share of Islamic Banking in Assets of Banking Industry	5.1	5.6	5.8	6.1
Deposits	15.5	15.5	2.3	14.1
Islamic Banks (IBs)	6	6	6	6
Banks having Islamic Banking Divisions	12	13	13	13
Total Islamic Banking Network	528	650	654	667
of which Islamic Banking Divisions' Branches	137	172	176	188

Table 5.2: Islamic Banking at a Glance over quarters

	(in billion Rupees, Share in percent)							
	Jun-09	Share	Dec-09	Share	Mar-10	Share	Jun-10	Share
Financing	140.0	44.8	153.5	41.9	155.8	42.0	157.5	38.3
Investments	53.5	17.1	72.2	19.7	72.9	19.6	78.0	19.0
Cash, bank balance, placements	89.6	28.7	104.7	28.6	104.4	28.1	122.5	29.8
Other assets	29.5	9.4	35.9	9.8	38.0	10.2	53.0	12.9
Total Assets	312.6	100.0	366.3	100.0	371.2	100.0	411.1	100.0
Deposits	238.2	86.9	282.6	87.1	289.1	87.9	329.8	89.6
Due to FIs	12.6	4.6	19.1	5.9	17.4	5.3	15.1	4.1
Other liabilities	23.3	8.5	22.7	7.0	19.0	5.8	18.3	5.0
Total Liabilities	274.1	100.0	324.4	100.0	328.9	100.0	368.2	100.0
Capital & other funds	38.9	12.4	41.9	11.4	42.2	11.4	42.8	10.4

Figure 5.1: Composition of Deposits**Figure 5.2: Break up - Mode of Financing**

5. Performance of Islamic Banking

Islamic Banking continues to flourish in Jun-10, at the back of decline in NPFs, sustained profits and increased share in the banking system (6.1 percent) (see Table 5.1). The network of Islamic Banking increased by 1.9 percent, with most of the increase taking place in Islamic Banking Divisions' Branches (YoY growth 26.3 percent). During Jun-10, Islamic banking witnessed a double digit growth in assets, despite the fact that a couple of Islamic banks are going through consolidation phase, which has somewhat affected the Islamic Banking activities during the recent quarters.

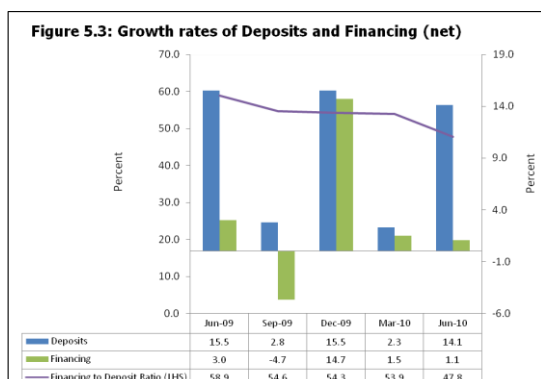
Disaggregated analysis of the assets shows 7 percent growth in investments over the quarter (see Table 5.2). The growth mainly resulted from investments in energy sector Sukuks and in foreign Sukuks. Other assets also underwent a significant increase of 39.0 percent in Jun-10, due to placement of some of the disbursements as advance against financing under this head due to accounting treatment as prescribed in adopted IFAS. Once the products are materialized, these amounts shall be moved to financing. On liabilities side, deposits remained the key source of IBIs funding which increased by 14.1 percent (YoY growth 38.4 percent) (see Figure 5.1). Islamic Banks dominated the rise in Deposits increasing their

Table 5.3: Segmentwise Breakup of Financing

	(amount in billion Rupees, share in percent)			
	Mar-10		Jun-10	
	Financing	Share	Financing	Share
Corporate Sector	109.9	67.9	100.7	61.5
SMEs	11.2	6.9	11.0	6.7
Agriculture	0.0	0.0	0.0	0.0
Consumer Finance:	31.8	19.7	32.0	19.5
Credit Cards	0.0	0.0	0.0	0.0
Auto Loans	13.8	8.5	14.4	8.8
Consumer Durable	0.0	0.0	0.0	0.0
Mortgage Loan	17.7	10.9	17.1	10.4
Other personal Loans	0.3	0.2	0.5	0.3
Commodity Financing	5.2	3.2	16.4	10.0
Staff Loans	3.0	1.9	3.1	1.9
Others	0.7	0.4	0.5	0.3
Total	161.8	100.0	163.8	100.0

Table 5.4: Comparative Position on Concentration of Funds

Items	(amount in billion Rupees, share in percent)			
	Mar-10		Jun-10	
	Financing	Share	Financing	Share
Chemical and Pharmaceuticals	17	10.3	15	9.0
Agribusiness	1	0.6	2	1.1
Textile	33	20.2	30	18.1
Cement	4	2.8	6	3.4
Sugar	10	5.9	6	3.5
Shoes and leather garments	2	1.2	2	1.1
Automobile and transportation	3	2.0	3	1.8
Financial	2	0.9	2	1.3
Insurance	0	0.0	0	0.0
Electronics and electric appliances	2	1.0	1	0.9
Production and transmission of energy	7	4.4	8	4.8
Individuals	32	19.8	31	18.9
Others	50	31.0	59	36.0
Total	161.8	100.0	163.8	100.0



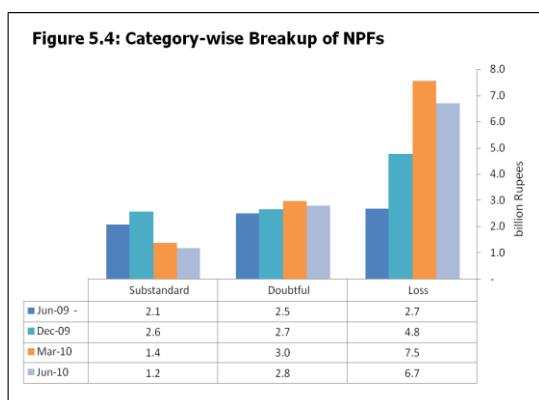
share to around 70 percent of the total deposits of Islamic Banking.

Financing saw a modest increase of 1.1 percent in Jun-10. The break-up of financing show that Murabaha, the major source of financing, increased by 19.0 percent, while Musharaka financing doubled over the quarter (see Figure 5.2). Salam and Istisna after seeing staggering growth in previous quarter, declined considerably during the quarter under review.

The segment-wise analysis indicates an overall decrease in corporate sector financing (see table 5.3 & 5.4). However, increase in commodity financing under Murabaha mode for wheat procurement, lead to overall increase in financing. The increase in Auto Loans (under Ijarah), coupled with marginal increase in Other Personal Loans and a decrease in Mortgage Loans (under Diminishing Musharaka) led to a marginal increase in consumer financing portfolio of Islamic banks in Jun-10 (see Table 5.3).

Strong growth in deposits with minor increase in financing led to further decline in financing to deposit ratio in Jun-10, indicating improved liquidity profile of IBIs (see Figure 5.3).

The financing risk remained subdued in Jun-10. NPFs actually declined by 10.9 percent during the quarter under review. Improved recoveries with increase in value of equity securities

**Table 5.5: Asset Quality**

Indicator	Jun-09	Dec-09	Mar-10	Jun-10
	(Billion Rupees)			
Non-performing Financings	7.3	10.0	11.9	10.6
Provisions held	4.0	5.1	5.9	6.3
Net NPFs	3.3	4.8	5.9	4.4
	(in percent)			
NPFs to total financing	5.0	6.3	7.3	6.5
Net NPFs to net financing	2.4	3.1	3.8	2.8
Provision to NPFs	54.4	51.7	50.0	58.8
Net NPFs to Capital	8.5	11.5	14.1	10.2

Table 5.6: Income Statement

	Jun-09	Dec-09	Mar-10	Jun-10
	(billion Rupees)			
Markup Income	15.4	31.6	9.0	18.4
Markup Expense	8.3	17.2	4.8	10.0
Net Markup Income	7.2	14.3	4.2	8.4
Provision Expense	1.7	3.1	0.7	1.2
Non Markup Income	1.6	3.7	1.0	2.0
Operating Expense	5.7	12.7	3.7	7.5
Profit Before Tax	1.4	2.3	0.8	1.7
Tax	0.3	0.5	0.1	0.3
Profit After Tax	1.1	1.8	0.7	1.5
Equity	38.9	41.9	42.2	42.8
	(in percent)			
Net Markup Income to total assets	2.2	4.6	4.6	4.4
Non Markup Income to total assets	0.5	1.2	1.1	1.0
Operating Expense to Gross Income	65.1	70.3	70.2	71.8
ROA (after tax)	0.8	0.6	0.8	0.8

held as collateral against the financing decreased the NPFs during Jun-10. This coupled with marginal increase in financing lead to decrease in NPF to financing ratio to 6.5 percent (see table 5.5).

Category-wise analysis indicates decrease in NPFs in all the classification categories. However, provisions increased by 6.7 percent, thus improving the net NPFs, net infection ratio and provisions coverage ratio (see Figure 5.4). The capital impairment ratio also improved by 3.9 percentage points, decreasing the capital at risk and improving the resilience of the Islamic banking.

Islamic Banking continued to register healthy profits during the quarter, owing to high net mark up income and non mark up income, and a relatively lower increase in provision expense (see Table 5.6). The earnings ratios saw a marginal decline over the quarter, due to healthy growth in asset base of the Islamic Banking system. The earnings, once again remain dominated by IBBs.

6. Development Finance Institutions

Table 6.1: DFIs at a Glance

	(billion Rupees)					
	CY09	%	Mar-10	%	Jun-10	%
Balances with Treasury Banks	1.7	1.3	1.7	1.3	1.7	1.2
Lending to FIs and Balances with other Banks	18.8	14.2	12.1	9.3	12.0	8.6
Investments (net)	62.1	47.0	65.1	50.0	73.2	52.1
Advances (net)	41.4	31.3	43.0	33.0	44.9	32.0
Other Assets	8.2	6.2	8.5	6.5	8.5	6.0
Total Assets	132.2	100.0	130.3	100.0	140.3	100.0
Borrowing from FIs	51.5	39.0	49.2	68.7	57.3	69.8
Deposits	18.1	13.7	16.4	22.9	17.6	21.4
Other Liabilities	5.8	4.4	6.0	8.4	7.2	8.8
Total Liabilities	75.4	56.9	71.7	55.0	82.1	58.5
Shareholders Equity						
(including revaluation surplus/(Deficit))	56.8	42.9	58.6	45.0	58.2	41.5

Figure 6.1: Movement in Earning Assets

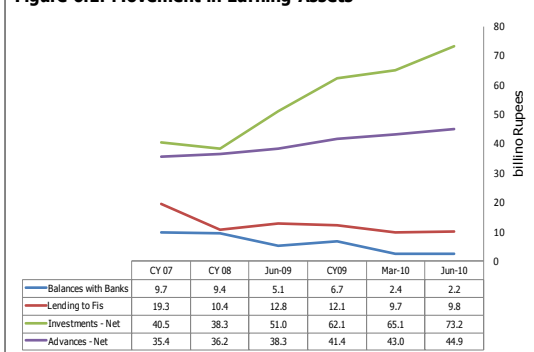
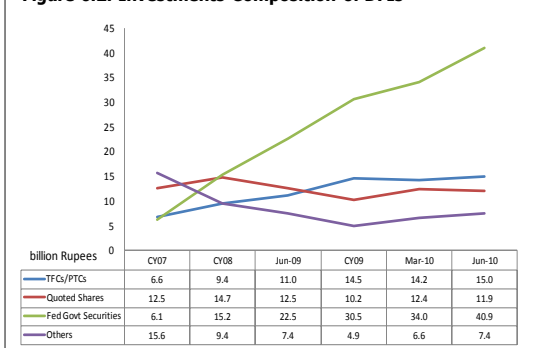


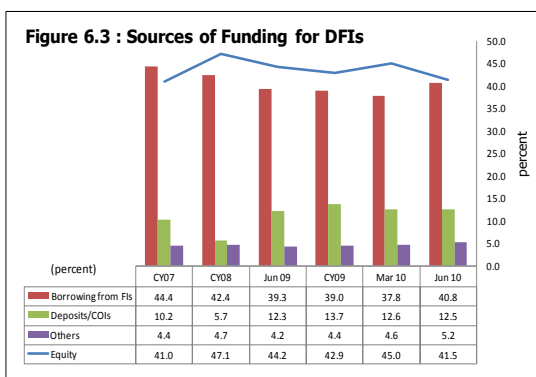
Figure 6.2: Investments Composition of DFIs



The DFIs continue to witness a strong operating performance over the last two quarters. The profitability of the DFIs reached highest level in the last three years due to decrease in loan loss provisions and high interest income. During the Jun-10, the asset base of the sector registered a healthy growth of 8 percent, which mainly was funded by borrowings and deposits.

Main thrust of the increase in assets came in investments in Federal Government securities followed by advances (see Figure 6.1). Investments registered a healthy increase of more than 12 percent over the quarter, emanating from 20 percent increase in government securities particularly the short term MTBs. (See Figure 6.2). The long term PIBs showed a net decline, while investment in TFCs, mainly commercial, also slightly up-ticked. However, investment in quoted shares continued its declining trend over the last several quarters, owing to stock price volatility and a lower appetite of DFIs for risky investments.

On the maturity front, DFIs not only reduced their HTM investments portfolio, but also increased investments in the AFS category, thus increasing the share of investments in AFS category.



This is in line with the general industry strategy of keeping the investment management flexible. However, despite increase in short term investments, a few DFIs need to improve upon their Asset and Liabilities Management (ALM), as wide liquidity and interest rate mismatches exist in medium and long term maturities.

The funding structure of DFIs is heavily dominated by Equity and Borrowings and partially supported by deposits. The borrowings grew by 8 percent during the quarter, increasing their share in funding by another 6 percent, while deposits observed growth of 7 percent at the back of placement from financial institutions (see Figure 6.3).

Despite all the negative macro economic factors like power shortages and precarious law and order situation, DFIs managed to display steady growth in their advances over the past several quarters. Sector wise advances show increase in demand for loans from Agri-business, which represents public sector for commodity procurement operations. The sectors like Chemicals, Sugar and Energy acquired more funds from DFIs due to continuous rise in demand for fertilizers, Pharmaceuticals, sugar and energy.

Textile sector, that was once the mainstay of growth in advances in corporate sector, shed off some loans

Table 6.2: Sector-wise Loans

(amount in billion Rupees, share in percent)

	Dec-09	Share	Mar-10	Share	Jun-10	Share
Chemical	3.18	6.2	3.65	6.9	3.70	6.89
Agriculture	0.58	1.1	0.56	1.1	1.55	2.89
Textile	5.62	10.9	5.72	10.9	5.65	10.52
Cement	1.85	3.6	1.89	3.6	1.85	3.45
Sugar	1.61	3.1	2.04	3.9	2.10	3.90
Leather	0.04	0.1	0.04	0.1	0.04	0.07
Auto	1.39	2.7	1.29	2.4	1.26	2.35
Financial	0.84	1.6	0.51	1.0	0.54	1.00
Insurance	0.00	0.0	0.00	0.0	0.00	0.00
Electronics	0.89	1.7	0.88	1.7	0.82	1.53
Energy	9.20	17.9	10.42	19.8	10.91	20.31
Individuals	16.75	32.5	15.92	30.2	14.85	27.64
Others	9.53	18.5	9.73	18.5	10.46	19.47
Total	51.49	100.0	52.64	100.0	53.7	100.0

Table 6.3: Segment wise Loans of DFIs

(amount in million Rupees, share in percent)

	Dec-09		Mar-10		Jun-10	
	Loans	Share in Loans	Loans	Share in Loans	Loans	Share in Loans
Corporate Sector	33,588	65.2	35,666	67.7	37,671	70.1
SMEs Sector	388	0.8	341	0.6	322	0.6
Agriculture Sector	-	-	-	-	-	0.0
Consumer sector	16,098	31.3	15,183	28.8	14,184	26.4
i. Credit cards	-	0.0	-	0.0	-	0.0
ii. Auto loans	6.86	0.0	4.67	0.0	4	0.0
iii. Consumer durable	0.99	0.0	0.93	0.0	1	0.0
iv. Mortgage loans	15,981	31.1	15,082	28.6	14,095	26.2
v. Other personal loans	109	0.2	96	0.2	84	0.2
Commodity financing	-	-	-	-	-	0.0
Staff Loans	869	1.7	872	1.7	883	1.6
Others	544	1.1	583	1.1	658	1.2
Total	51,487.1	100.0	52,644.0	100.0	53,717.5	100.0

over the quarter due to subdued business activity (See Table 6.2). Cement and Automobile sectors also reduced their financings from DFIs during Jun-10. The consumer finance, which is the second largest segment in DFIs advances portfolio and mainly finances housing mortgage further declined over the quarter (see Table 6.3).

For the first time in past several quarters the DFIs observed some improvement in the asset quality due to a 4.7 percent decline in NPLs and concomitant decline in infection ratio. Decrease in NPLs, coupled with FSV benefit on collateral against NPLs, reduced the provision requirements by 9.3 percent and provisions coverage ratio decreased by 320 bps (see Table 6.4). As a result, net NPLs increased, however, higher increase in net advances lead to decrease in net infection ratio. Increase in Net NPLs also increased capital impairments ratio, bringing higher capital at risk.

Table 6.4: Key Performance Indicators

	(in percent)				
	CY07	CY08	CY09	Mar-10	Jun-10
Total Capital to Total RWA	43.7	53.4	52.1	54.8	53.3
Tier 1 Capital to Total RWA	44.0	53.3	52.1	54.7	53.5
Capital to Total Assets	41.0	47.1	42.9	45.0	41.5
NPLs to Total Loans	20.8	27.0	27.1	28.0	26.2
Net NPLs to Net Loans	4.6	11.2	10.1	11.8	11.7
Provision to NPLs	81.6	65.9	69.8	65.7	62.5
Net NPLs to Capital	3.2	8.4	7.4	8.6	9.1
ROA before Tax	0.8	1.5	1.3	4.0	3.5
ROA after Tax	-0.1	0.7	0.8	2.8	2.5
ROE before Tax	2.2	3.4	2.9	9.2	8.2
ROE after Tax	-0.3	1.6	1.7	6.4	5.9
Loans to Deposits	281.4	622.9	229.2	261.8	255.7
Net Interest Income to Gross Income	44.7	34.8	79.9	76.0	106.9
Non Interest Income to Gross Income	55.3	65.2	20.1	24.0	-6.9
Operating Expense to Gross Income	39.1	22.7	36.9	33.8	48.5

Despite the constraints of limited access to liquidity and cost of funds, majority of DFIs posted earnings for the last couple of quarters due to increase in net markup, decrease in NPLs and lower provision charges. However, ROA and ROE slightly declined due to deceleration in earnings over the previous quarter and expansion in asset base (see Table 6.4).

The CAR of DFIs decreased by 150bps to 53.3 percent in June-10. The decrease resulted mainly from decline in equity caused by deficit or revaluation of AFS investments and in increase in Risk Weighted Assets (RWA) (See Table 6.4)

It is vital for DFIs to try to focus on their ALM in order to achieve a competitive cost of funds, which may result in selecting better quality assets and increased profitability. Furthermore, DFIs needs to make efforts for effective use of their capital and enhance their risk management and recovery efforts.

7. Regulatory Developments

This section delineates the key regulatory developments that have taken place during the quarter and post quarter till end July, 2010.

I. MICROFINANCE

Amendments in Prudential Regulations

Maintenance of Cash Reserve & Liquidity Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement

i. The reserve requirements of the MFBs have been amended to align them with general requirements and to provide further space to MFBs for enhancing their operations.

In terms of amendments MFB shall maintain:

- a. CRR equivalent to not less than 5% of its Deposits (including demand deposits, and time deposits with tenor of less than 1 year)
- b. SLR equivalent to at least 10% of its total Demand liabilities, and Time Liabilities with tenor of less than 1 year.

ii. For SLR calculation, the approved securities mean Treasury Bills and Pakistan Investment Bonds.

MFBs shall henceforth submit revised CRR and SLR statements along with bi-weekly statement of affairs (annexure-D) to OSED, SBP from 28th May, 2010 and onward. (MFD Circular No. 2 of 2010, May 13, 2010)

Amendment in Prudential Regulation No.12: Classification of Assets and Provisioning Requirements

The Prudential Regulation No. 12 for classification of assets and provisioning requirements has been amended to allow benefit of gold (ornaments and bullion) in addition to cash collateral, in arriving at specific provisioning against non-performing loans. (MFD Circular No. 3, July 27, 2010)

II. PRUDENTIAL REGULATIONS

a. Amendment in definition of Liquid Assets

The definition of "Liquid Assets" given at para 9 and 13 of Prudential Regulations for Consumer and SME Financing, respectively, now includes "gold ornaments" and "gold bullion" as liquid assets.

(BPRD Circular Letter No. 16 of 2010)

b. Facilitation of development of Real Estate Investment Trusts (REIT)

In order to facilitate the development of *REITS*, banks/DFIs' investment in units of REIT has been exempted from application of aggregate investment limits of 30% and 45% of equity of the banks and Islamic banks/DFIs respectively, prescribed in the Regulation R-6 of Prudential Regulations for Corporate / Commercial Banking. (BPRD Circular Letter No. 15 of 2010)

c. Provisions for Loans and Advances

The Banks/DFIs have been allowed avail the benefit of Forced Sale Value (FSV) of mortgaged residential/ commercial/industrial land (*open plot, and where building is constructed separate valuation of land must be available*) held as collateral against NPLs, for four years from the date of classification of that particular loan / facility. However this benefit would be available in such cases where FSV valuation of land is not

more than four years old. (BSD Circular No. 2 of 2010, June 3, 2010)

III. RISK MANAGEMENT

Internal Control over Financial Reporting (ICFR)

The banks/DFIs have been advised to submit a detailed review report on ICFR for the quarter ended September 30, 2010 by October 31, 2010, duly approved by respective "Audit Committee" or "the Board of Directors." The review report shall discuss in detail all the stages of road map issued vide BSD Circular No. 05 dated February 24, 2009, gaps identified, remedial measures taken and results of testing of controls. Furthermore, the statutory auditors of the Banks / DFIs, have been allowed to submit a "Long Form Report", instead of expressing opinion on ICFR in the annual financial statements, through the management of respective bank / DFI for the year ended December 31, 2010, latest by March 31, 2011. (BSD Circular No. 3 of 2010, June 10, 2010)

IV. FINANCE AND REFINANCING FACILITY

a. Relaxation to Exporters Under Part-II of Export Finance Scheme

In order to address the problems faced by the exporters owing to load shedding and shortage of raw material, it has been decided to allow an additional period of one month for the exporters having shortfall in required performance under Part-II for the monitoring year 2009-2010. Accordingly, exporters may include entries showing realization of export proceeds during July, 2010 in their EF-1 statement for the year 2009-2010. However,

exporters having met the performance requirements of the Scheme shall submit EF-1 statement for the purpose of verification to FEOD during July-August, 2010 as usual. (SMEFD Circular No. 12 of 2010)

b. Revision of Financing Rates under the Export Finance Scheme (EFS)

It has been decided that rate of refinance under the Export Finance Scheme applicable from July 1, 2010 and onward till further instructions shall be 8.5% p.a. (SMEFD Circular No. 10 of 2010, June 30, 2010)

c. Reduction in Export Performance Requirements under Part-II of Export Finance Scheme (EFS) for Hand Knotted Carpets for FY 2009-10

The required performance for financing facilities, availed under Part II of EFS during FY 2009-10 be fixed at 1.50 times as against existing performance requirements of 2.0 times for Hand knotted Carpets. The entitlement of limits for FY 2010-11 shall, however, continue to be fixed as per existing criteria / instructions. (SMEFD Circular No. 09 of 2010, June 28, 2010)

d. Expansion in Scope of Scheme for Modernization of SMEs

As SMEs, play an important role in creation of employment opportunities, economic growth, poverty reduction and equitable distribution of economic prosperity, SBP has decided to expand the scope of its subject schemes to cover a wide range of SME Clusters / Sectors. The financing will be available for purchase of new imported/local Plant & Machinery for BMR of existing and setting up of new units.

Financing for import/ local purchase of new generators up-to a maximum capacity of 500 KVA shall also be eligible under the Scheme. The tenor for financing under the scheme has also been enhanced from 7 years to 10 years. Financing under the scheme will be available at 8 to 10 percent mark-up rate for 3 to 10 years. (SMEFD Circular No. 7 of 2010, May 6, 2010)

e. Financing Facility for Storage of Agricultural Produce

To develop the agricultural produce marketing and enhance storage capacity, SBP issued a Scheme for "Financing Facility for Storage of Agricultural Produce (FFSAP)" to encourage Private Sector to establish Silos, Warehouses and Cold Storages through SMEFD Circular No. 08 dated June 4, 2010. The financing shall be available on long term basis for establishment, expansion and balancing, modernization & replacement (BMR) of Steel/Metal/Concrete Silos, Warehouses & Cold Storage facilities for storing agricultural produce and 65% of civil works shall be financed. Financing shall be available for a maximum period of seven years including a maximum grace period of six months. Financing under the Scheme is available at 8 to 10 percent for 3 to 7 years. (SMEFD Circular No. 8 of 2010, June 04, 2010)

f. Fiscal Relief to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA – Payment of mark-up rate subsidy on business loans for the period from 01-01-2010 to 30-06-2010

The SBP has circulated procedure for payment of mark-up rate differential to the borrowers of Khyber Pakhtunkhwa, Federally Administered Tribal Areas (FATA) and Provincially

Administered Tribal Areas (PATA) in pursuance of Prime Minister's announcement of Fiscal Relief Package to rehabilitate the economic life in these areas vide SMEFD Circular No. 11 dated July 1 2010. Effective January 1, 2010, banks, development finance institutions (DFIs) and micro finance banks (MFBs) shall charge mark-up rate on all business loans (Corporate, SMEs, Agriculture & Microfinance) outstanding as on 31-12-2009 of the borrowers of Khyber Pakhtunkhwa, FATA, PATA @7.5% p.a. or six month KIBOR-offer side, whichever is lower, for next two years except loans extended to cigarette, textile, cement, sugar and beverages sectors. Loans booked outside the Khyber Pakhtunkhwa, FATA and PATA on behalf of businesses operating / located in these areas shall also qualify.

Banks/DFIs/MFBs shall charge maximum rate of 7.5% p.a. on principal amount of outstanding loans of the borrowers of above areas and differential between 7.5% p.a. and applicable six month KIBOR would be borne by Government of Pakistan as subsidy. Loans having fixed mark up rates equivalent to or less than 7.5% p.a., shall not qualify for subsidy. Similarly no subsidy will be applicable, if at any stage six months KIBOR is determined equivalent to or less than said rate.

Banks, DFIs and MFBs can seek reimbursement of mark up rate subsidy from SBP-BSC (Bank), Peshawar on submission of prescribed claim up-to August 16, 2010 (SMEFD Circular Letter No. 12, July 29, 2010)

V. ISLAMIC BANKING

Criteria for Conversion of Conventional Banking Branches into Islamic Banking Branches

To rationalize the process and facilitate conventional banks in conversion of their existing conventional branches into Islamic banking branches, a detailed criterion has been developed. Main points of the criterion are as under:

- Only those conventional commercial banks which have Islamic Banking Divisions duly allowed by SBP and a composite CAMELS-S rating of at least 'Fair' (3) in the last On-Site report shall be eligible to apply for conversion of their existing conventional branches into Islamic banking branches
- Banks shall preferably submit conversion requests to Banking Policy & Regulations Department of SBP, separately, at the time of submission of Annual Branch Expansion Plan (ABEP). However, keeping in view the evolving nature of Islamic banking, individual conversion cases may also be considered by SBP for approval.

This criterion shall be applicable with immediate effect and the banks, henceforth, shall prepare their conversion plans and strategies in line with the criteria and submit the same to SBP for in-principle approval and grant of license for Islamic banking branches. (IBD Circular No. 2, June 25, 2010)

VI. AGRICULTURAL CREDIT

In order to streamline the turnaround time and harmonize the lending procedures for agricultural credit, SBP in consultation with banks has revised the list of documents to be obtained against various kinds of agri. Loans and has advised banks to take different measures by 31st December, 2010 including:

- Develop a comprehensive Agriculture Finance policy in line with PRs duly approved by their Board of Directors.
- Set up and maintain a fully dedicated Agri. Finance Department/Division/Unit equipped with qualified agri. financing experts and officers with specified job responsibilities and career progression opportunities.
- Develop an overall annual regional agricultural portfolio plan and assign targets for disbursement, growth in outstanding portfolio & number of borrowers to respective agri. designated branches. The concerned Regional Business Chiefs or Area Heads to be made responsible for the achievement of the targets.
- Launch financial literacy program for awareness of the farming community about agri. lending products / schemes of the bank.

Banks are advised to strictly comply with the instructions and maintain proper record for inspection purposes. SBP and its field offices (SBP-BSC) will also monitor the compliance on regular basis. (ACD Circular No. 2 of 2010).

Annex-I

Group wise Balance Sheet and Income Statement of Banks

June 30, 2010

(Amount in million Rupees)

Financial Position	PSCB	LPB	FB	CB	SB	All Banks
ASSETS						
Cash & Balances With Treasury Banks	144,238	389,836	36,848	570,922	3,007	573,929
Balances With Other Banks	32,935	98,843	13,454	145,232	9,660	154,891
Lending To Financial Institutions	34,808	219,979	37,186	291,972	20	291,992
Investments - Net	344,936	1,471,104	61,332	1,877,372	15,365	1,892,736
Advances - Net	618,182	2,433,101	84,282	3,135,565	95,286	3,230,851
Operating Fixed Assets	30,308	204,426	2,906	237,640	5,076	242,716
Deferred Tax Assets	17,185	44,280	5,637	67,102	-	67,102
Other Assets	98,628	211,803	7,171	317,602	10,438	328,039
TOTAL ASSETS	1,321,218	5,073,371	248,815	6,643,405	138,851	6,782,256
LIABILITIES						
Bills Payable	13,417	54,934	3,518	71,869	698	72,567
Borrowings From Financial Institution	49,458	415,365	15,852	480,675	84,103	564,778
Deposits And Other Accounts	1,060,374	3,879,478	169,886	5,109,737	17,829	5,127,566
Sub-ordinated Loans	-	48,331	-	48,331	3,405	51,736
Liabilities Against Assets Subject To Finance Lease	92	43	-	135	11	146
Deferred Tax Liabilities	3,306	6,919	215	10,441	163	10,603
Other Liabilities	62,419	166,837	22,984	252,240	34,424	286,664
TOTAL LIABILITIES	1,189,066	4,571,906	212,456	5,973,428	140,633	6,114,060
NET ASSETS	132,153	501,465	36,360	669,978	(1,782)	668,196
NET ASSETS REPRESENTED BY:						
Share Capital	24,030	282,585	35,148	341,763	15,507	357,270
Reserves	34,277	113,737	93	148,107	3,511	151,617
Unappropriated Profit	53,881	65,841	1,312	121,034	(24,671)	96,363
Share Holders' Equity	112,187	462,164	36,553	610,904	(5,654)	605,250
Surplus/Deficit On Revaluation Of Assets	19,966	39,301	(193)	59,074	3,872	62,946
TOTAL	132,153	501,465	36,360	669,978	(1,782)	668,196
PROFIT AND LOSS STATEMENT						
Mark-Up/ Return/Interest Earned	55,386	238,440	11,373	305,198	6,302	311,499
Mark-Up/ Return/Interest Expenses	33,715	127,453	5,981	167,149	3,505	170,654
Net Mark-Up / Interest Income	21,671	110,987	5,392	138,049	2,797	140,845
Provisions & Bad Debts Written Off Directly/(Reversals)	4,359	23,397	1,749	29,505	860	30,365
Net Mark-Up / Interest Income After Provision	17,312	87,590	3,643	108,544	1,937	110,481
Fees, Commission & Brokerage Income	5,055	16,688	1,031	22,774	49	22,823
Dividend Income	700	2,181	0	2,882	80	2,962
Income From Dealing In Foreign Currencies	1,200	5,705	1,941	8,847	4	8,850
Other Income	2,336	8,242	(476)	10,101	3,073	13,174
Total Non - Markup / Interest Income	9,291	32,816	2,496	44,603	3,206	47,809
Administrative Expenses	26,603	120,406	6,138	153,147	5,143	158,290
Other Expenses	15,201	74,376	4,951	94,528	3,458	97,986
Total Non-Markup/Interest Expenses	15,324	75,377	4,988	95,689	3,467	99,156
Profit before Tax and Extra ordinary Items	11,278	45,029	1,151	57,458	1,676	59,134
Extra ordinary/unusual Items - Gain/(Loss)	-	-	461	461	12.73	474.18
PROFIT/ (LOSS) BEFORE TAXATION	11,278	45,029	689	56,996	1,663	58,660
Taxation	3,750	17,404	243	21,396	1,336	22,733
PROFIT/ (LOSS) AFTER TAX	7,528	27,625	447	35,600	327	35,927

Annex-II

Financial Soundness Indicators

(In percent)

Indicators	2006	2007	2008	2009	Mar-10	Jun-10
CAPITAL ADEQUACY						
Risk Weighted CAR						
Public Sector Commercial Banks	15.2	16.1	13.4	15.1	13.7	13.9
Local Private Banks	12.7	11.8	11.9	13.9	13.8	14.0
Foreign Banks	15.0	14.6	21.8	23.0	22.4	22.7
Commercial Banks	13.3	12.8	12.6	14.5	14.1	14.3
Specialized Banks	(8.3)	(6.2)	(4.9)	(1.5)	(0.5)	(1.5)
All Banks	12.7	12.3	12.2	14.0	13.7	13.9
Tier 1 Capital to RWA						
Public Sector Commercial Banks	11.1	12.2	10.9	12.6	11.6	11.9
Local Private Banks	10.4	9.9	10.0	11.4	11.4	11.7
Foreign Banks	14.3	14.0	21.3	22.5	22.0	22.3
Commercial Banks	10.8	10.5	10.6	12.0	11.8	12.1
Specialized Banks	(13.3)	(12.5)	(10.1)	(5.8)	(5.3)	(5.6)
All Banks	10.0	10.0	10.1	11.6	11.4	11.7
Capital to Total Assets						
Public Sector Commercial Banks	12.2	13.7	10.7	11.3	11.1	10.0
Local Private Banks	9.2	10.2	10.0	9.9	10.2	9.9
Foreign Banks	10.1	11.2	14.5	14.8	14.0	14.6
Commercial Banks	9.9	10.9	10.3	10.4	10.5	10.1
Specialized Banks	(8.0)	(5.4)	(3.2)	(1.7)	(0.9)	(1.3)
All Banks	9.4	10.5	10.0	10.1	10.3	9.9
ASSET QUALITY						
NPLs to Total Loans						
Public Sector Commercial Banks	9.0	8.4	16.3	16.9	17.6	16.5
Local Private Banks	5.2	6.5	8.7	11.1	11.6	11.6
Foreign Banks	1.0	1.6	2.9	6.7	7.3	8.6
Commercial Banks	5.7	6.7	9.9	12.1	12.7	12.5
Specialized Banks	39.1	34.3	28.8	25.5	24.2	24.9
All Banks	6.9	7.6	10.5	12.6	13.1	12.9
Provision to NPLs						
Public Sector Commercial Banks	84.5	89.0	66.9	67.8	68.0	72.3
Local Private Banks	78.7	88.5	70.2	71.0	72.1	74.1
Foreign Banks	191.7	157.0	81.9	75.2	78.1	78.7
Commercial Banks	81.5	89.1	69.3	70.1	71.0	73.7
Specialized Banks	64.1	68.6	72.4	65.7	68.1	66.5
All Banks	77.8	86.1	69.6	69.9	70.9	73.2
Net NPLs to Net Loans						
Public Sector Commercial Banks	1.5	1.0	6.1	6.1	6.4	5.2
Local Private Banks	1.1	0.8	2.7	3.5	3.5	3.3
Foreign Banks	(1.0)	(0.9)	0.5	1.8	1.7	2.0
Commercial Banks	1.1	0.8	3.3	4.0	4.0	3.6
Specialized Banks	18.7	14.0	10.0	10.5	9.3	10.0
All Banks	1.6	1.1	3.4	4.1	4.2	3.8
Net NPLs to Capital						
Public Sector Commercial Banks	6.4	3.4	30.3	27.4	28.8	24.3
Local Private Banks	7.1	4.1	15.9	17.4	17.2	15.9
Foreign Banks	(5.1)	(4.1)	1.6	4.4	4.1	4.5
Commercial Banks	6.2	3.7	17.9	18.8	18.8	17.0
Specialized Banks	-	-	-	-	-	-
All Banks	9.7	5.6	19.4	20.4	20.2	18.4
EARNINGS						
Return on Assets (Before Tax)						
Public Sector Commercial Banks	4.0	3.5	0.6	1.5	1.9	1.8
Local Private Banks	3.1	2.0	1.3	1.3	1.9	1.8
Foreign Banks	3.2	1.5	0.0	(0.3)	0.1	0.6
Commercial Banks	3.2	2.3	1.1	1.3	1.8	1.8
Specialized Banks	(1.3)	1.4	3.2	3.1	2.0	2.6
All Banks	3.1	2.2	1.2	1.3	1.8	1.8

Financial Soundness Indicators

(In percent)

Indicators	2006	2007	2008	2009	Mar-10	Jun-10
Return on Assets (After Tax)						
Public Sector Commercial Banks	2.7	2.5	0.5	1.3	1.3	1.2
Local Private Banks	2.1	1.4	0.9	0.9	1.2	1.1
Foreign Banks	2.1	0.7	0.3	(0.3)	0.1	0.4
Commercial Banks	2.19	1.6	0.8	0.9	1.2	1.1
Specialized Banks	(1.8)	0.71	1.8	1.2	0.1	0.6
All Banks	2.08	1.5	0.8	0.9	1.1	1.1
ROE (Avg. Equity & Surplus) (Before Tax)						
Public Sector Commercial Banks	32.4	27.2	5.2	13.3	16.7	16.8
Local Private Banks	36.2	20.4	12.9	13.2	18.8	18.2
Foreign Banks	30.0	13.1	0.0	(2.4)	0.7	3.8
Commercial Banks	34.7	21.8	10.6	12.4	17.4	17.1
Specialized Banks	-	-	-	-	-	-
All Banks	35.2	22.6	11.4	13.2	17.8	17.7
ROE (Avg. Equity & Surplus) (After Tax)						
Public Sector Commercial Banks	21.7	19.5	4.4	11.4	11.3	11.2
Local Private Banks	25.0	13.8	8.5	8.6	11.7	11.2
Foreign Banks	20.4	6.0	2.2	(2.3)	0.4	2.5
Commercial Banks	23.7	15.0	7.3	8.6	11.0	10.7
Specialized Banks	-	-	-	-	-	-
All Banks	23.8	15.4	7.8	8.9	11.1	10.9
NI/ Gross Income						
Public Sector Commercial Banks	69.5	65.9	65.4	63.0	68.5	70.0
Local Private Banks	73.5	70.7	73.2	75.9	75.8	77.2
Foreign Banks	65.8	59.1	61.3	64.8	72.2	68.4
Commercial Banks	72.1	69.2	71.2	73.3	74.4	75.6
Specialized Banks	40.1	42.8	46.6	44.7	57.8	46.6
All Banks	70.9	68.2	70.3	72.4	74.0	74.7
Cost / Income Ratio						
Public Sector Commercial Banks	31.8	30.2	39.1	47.5	47.4	49.5
Local Private Banks	40.7	45.4	51.6	50.1	51.2	52.4
Foreign Banks	49.8	57.0	69.6	77.5	68.0	63.2
Commercial Banks	39.4	42.8	50.0	50.9	51.2	52.4
Specialized Banks	62.6	53.2	52.1	61.3	76.2	57.8
All Banks	40.3	43.2	50.1	51.2	51.8	52.6
LIQUIDITY						
Liquid Assets/Total Assets						
Public Sector Commercial Banks	33.9	37.0	30.6	31.1	29.7	33.6
Local Private Banks	31.1	32.5	26.8	32.3	32.2	33.6
Foreign Banks	41.0	41.6	45.2	55.0	58.2	58.5
Commercial Banks	32.2	33.8	28.3	32.9	32.8	34.6
Specialized Banks	23.0	27.9	24.5	19.8	15.5	17.3
All Banks	31.9	33.6	28.2	32.7	32.4	34.2
Liquid Assets/Total Deposits						
Public Sector Commercial Banks	42.6	47.1	38.9	40.1	38.0	41.9
Local Private Banks	40.6	42.9	35.0	43.4	42.7	44.0
Foreign Banks	61.1	61.1	71.6	82.4	88.3	85.7
Commercial Banks	42.0	44.3	37.1	44.0	43.4	44.9
Specialized Banks	205.4	247.7	229.4	167.1	148.9	134.5
All Banks	42.7	45.1	37.7	44.5	43.7	45.3
Advances/Deposits						
Public Sector Commercial Banks	64.6	60.0	68.4	65.2	63.9	58.3
Local Private Banks	74.5	70.1	75.1	66.6	65.4	62.7
Foreign Banks	80.1	75.2	68.9	56.1	51.2	49.6
Commercial Banks	72.7	73.8	73.6	66.0	64.6	61.4
Specialized Banks	528.4	507.3	577.0	560.8	669.3	534.5
All Banks	74.6	69.7	75.2	67.7	66.4	63.0

Annex-III

Selected Indicators for Different Categories of Banks
in terms of Size - June 30, 2010

Indicators	(In percent)			
	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Share of Total Assets	51.0	73.2	92.1	100
Share of Total Deposits	53.9	76.7	92.7	100
Share of Gross Income	59.4	76.8	93.9	100
Share of Risk Weighted Assets	52.7	72.8	92.3	100
Capital Adequacy				
Capital/RWA	15.3	14.1	13.9	13.9
Tier 1 Capital / RWA	12.5	11.4	11.5	11.7
Net Worth / Total Assets	10.5	9.6	9.8	9.9
Asset Composition				
Sectoral Distribution of Loans				
- Corporate Sector	50.7	75.2	92.7	100
- SMEs	39.7	60.3	89.0	100
- Agriculture	27.2	37.1	95.6	100
- Consumer Finance	49.4	75.0	91.9	100
- Commodity Financing	74.8	89.3	95.7	100
- Staff Loans	55.9	74.4	92.0	100
- Others	91.9	95.0	95.5	100
- Total	52.6	74.3	92.8	100
NPLs / Gross Loans	11.2	11.7	12.5	12.9
Net NPLs / Capital	10.6	15.4	17.7	18.4
Earning & Profitability				
ROA (After Tax)	1.9	1.5	1.3	1.1
ROE (After Tax)	17.9	15.5	12.5	10.9
Net Interest Income / Gross Income	78.5	77.7	74.9	74.7
Income from Trading & Foreign Exchange / Gross Income	15.4	15.8	16.6	16.8
Non-Interest Expense / Gross Income	40.7	46.1	49.6	52.6
Provision Expense to Gross Income	14.4	14.3	16.2	16.1
Liquidity				
Liquid Assets / Total Assets	33.3	33.6	33.7	34.2
Liquid Assets held in Govt. Securities / Total Liquid Assets	54.8	58.9	60.5	58.7
Liquid Assets / Total Deposits	41.7	42.4	44.3	45.3

Annex-IV

Bank-wise Major Statistics

June 30, 2010

(Amount in million Rupees)

S. No.	Name of the Banks	Assets	Advances	Deposits	Equity
Public Sector Commercial Banks					
1	National Bank of Pakistan	1,003,695	459,476	816,559	113,858
2	First Women Bank Limited	13,613	7,181	11,566	1,089
3	The Bank of Punjab	257,964	132,694	201,440	11,071
4	The Bank of Khyber	45,947	18,832	30,809	6,135
Local Private Banks					
5	Allied Bank Limited	433,187	233,960	352,615	31,467
6	Bank Alfalah Limited	388,022	198,967	315,090	22,131
7	Askari Bank Limited	279,732	144,883	221,762	15,902
8	Bank Al Habib Limited	282,813	114,749	226,099	14,377
9	Mybank Limited	38,770	18,306	28,924	5,074
10	SAMBA Bank Limited	27,003	10,019	13,253	7,958
11	Atlas Bank Limited	27,570	17,809	22,033	1,708
12	Faysal Bank Limited	178,217	93,299	136,376	13,475
13	Habib Bank Limited	839,450	424,775	674,810	81,020
14	KASB Bank Limited	60,345	31,530	49,750	4,085
15	Arif Habib Bank Limited	41,346	20,863	32,662	3,739
16	JS Bank Limited	35,987	11,351	24,026	5,160
17	MCB Bank Limited	537,615	245,058	419,270	73,275
18	United Bank Limited	645,182	343,340	499,892	63,563
19	The Royal Bank of Scotland Limited	87,460	43,051	66,024	6,626
20	Habib Metropolitan Bank Limited	235,758	102,254	151,290	19,392
21	BankIslami Pakistan Limited	40,904	12,209	33,139	4,717
22	Emirates Global Islamic Bank	20,093	11,004	14,948	3,001
23	Soneri Bank Limited	103,411	49,396	81,008	8,629
24	SILKBANK Limited	73,715	41,291	54,583	6,156
25	NIB Bank Limited	204,207	86,931	99,314	39,933
26	Meezan Bank Limited	136,531	36,642	114,526	9,858
27	Dubai Islamic Bank Pakistan Limited	40,940	20,912	32,899	6,101
28	Standard Chartered Bank	299,697	115,217	205,688	49,495
29	Dawood Islamic Bank Limited	15,416	5,283	9,499	4,622
Foreign Banks					
30	Albaraka Islamic Bank B.S.C. (E.C.), Pakistan Operations	33,048	19,134	25,367	2,863
31	Citibank N.A. (Pakistan Operations)	86,227	22,309	57,467	8,701
32	Deutsche Bank AG (Pakistan Operations)	17,006	2,357	7,615	5,036
33	HSBC Bank Middle East Limited - (Pakistan Operations)	54,860	21,391	42,588	5,840
34	Oman International Bank S.A.O.G (Pakistan Operations)	3,942	357	711	2,866
35	The Bank of Tokyo-Mitsubishi UFJ Limited (Pakistan Operations)	9,066	2,267	3,097	4,312
36	Barclays Bank PLC (Pakistan Operations)	44,668	16,468	33,040	6,742
Specialized Banks					
37	The Punjab Provincial Cooperative Bank Ltd	13,194	5,942	3,820	3,839
38	Industrial Development Bank of Pakistan	4,263	117	3,314	(27,991)
39	Zarai Taraqiyati Bank Limited	115,718	86,834	8,516	20,657
40	SME Bank Limited	5,677	2,393	2,178	1,714
Total		6,782,256	3,230,851	5,127,566	668,196

Annex-V

Results of Stress Test of Banking System- **June 30, 2010**

		Number of Banks with CAR		
		< 0%	0% - 10%	10%<
Pre-Shock		1	5	34
Post-Shock				
Credit Shocks				
C-1	15% of performing loans moving to substandard, 15% of substandard to doubtful, 25% of doubtful to loss	1	8	31
C-2	Tightening of loan classification i.e. all NPLs under OAEM require 25% provisioning, all NPLs under substandard require 50% and all NPLs in doubtful category require 100% provisioning.	1	5	34
C-3	Deterioration of loans to the textile sector (25%) directly downgraded to	1	6	33
C-4	25% of consumer loans (auto loans, personal loans & consumer durables only) classified into doubtful category.	1	5	34
C-5	Critical Infection Ratio (The ratio of NPLs to Loans where capital wipes out) estimated as 38% as against actual of Dec09: 12%)	1	39	0
Market Shocks				
Interest Rate Shocks				
IR-1	An increase in interest rates by 200 basis points.	1	6	33
IR-2	Shift coupled with flattening of the yield curve by increasing 500,300 and	1	6	33
Exchange Rate Shocks				
ER-1	Depreciation of exchange rate by 25%	1	5	34
ER-2	Appreciation of exchange rate by 5%	1	5	34
Equity Price Shocks				
Eq-1	Fall in the equity prices by 30%.	1	5	34
Eq-2	Fall in the equity prices by 50%.	1	5	34
Combined Credit & Market Shocks				
COMB-1	Interest rates increase (2%), deterioration of loans to the textile sector	1	8	31
COMB-2	Deterioration in loan portfolio (performing to substandard: 15%, substandard to doubtful: 15%, doubtful to loss: 20%), fall in the equity prices (50%).	3	9	28
Liquidity Shock		Number of Banks		
		Becoming Illiquid after Shock		
		3 days	4 days	5 days
L-1	Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively.	0	3	3

Annex-VI

Group wise Balance Sheet and Income Statement of Islamic Banks/Branches - June 30, 2010

(Amount in million Rupees)

Financial Position	Islamic Banks	Islamic Banking Branches	Total Islamic Banking
ASSETS			
Cash & Balances With Treasury Banks	23,963	9,414	33,378
Balances With Other Banks	20,108	10,178	30,286
Due from Financial Institutions	58,532	350	58,882
Investments - Net	43,028	34,972	78,000
Financing - Net	105,185	52,325	157,510
Operating Fixed Assets	9,313	2,835	12,148
Deferred Tax Assets	2,062	0	2,062
Other Assets	24,739	14,060	38,799
TOTAL ASSETS	286,931	124,133	411,065
LIABILITIES			
Bills Payable	3,919	1,127	5,046
Due to Financial Institution	10,577	4,565	15,142
Deposits And Other Accounts	230,379	99,399	329,778
Sub-ordinated Loans	0	0	-
Liabilities Against Assets Subject To Finance Lease	30	0	30
Deferred Tax Liabilities	5	9	13
Other Liabilities	10,861	7,359	18,220
TOTAL LIABILITIES	255,769	112,460	368,229
NET ASSETS	31,162	11,673	42,836
NET ASSETS REPRESENTED BY: -			
Share Capital	31,622	7,443	39,065
Reserves	1,269	8	1,277
Unappropriated Profit	(1,783)	3,489	1,706
Share Holders' Equity	31,108	10,940	42,047
Surplus/Deficit On Revaluation Of Assets	54	734	788
TOTAL	31,162	11,673	42,836
PROFIT AND LOSS STATEMENT			
Mark-Up Income	12,541	5,875	18,415
Mark-Up Expenses	6,860	3,151	10,010
Net Mark-Up	5,681	2,724	8,405
Provisions & Bad Debts Written Off Directly/(Reversals)	1,033	160	1,193
Net Mark-Up After Provision	4,648	2,564	7,212
Fees, Commission & Brokerage Income	611	296	906
Dividend Income	59	6	65
Income From Dealing In Foreign Currencies	707	36	743
Other Income	131	163	294
Total Non - Markup	1,508	501	2,009
	6,156	3,065	9,221
Administrative Expenses	5,613	1,789	7,402
Other Expenses	59	21	79
Total Non-Markup	5,671	1,809	7,481
Profit before Tax and Extra ordinary Items	484	1,256	1,740
Extra ordinary/unusual Items – Gain/(Loss)	0	0	0
PROFIT/ (LOSS) BEFORE TAXATION	484	1,256	1,740
Taxation	271	0	271
PROFIT/ (LOSS) AFTER TAX	213	1,256	1,469

Annex-VII

Balance Sheet and Income Statement of DFIs- **June 30, 2010**

(Amount in million Rupees)

Financial Position	All DFIs
ASSETS	
Cash & Balances With Treasury Banks	1,745
Balances With Other Banks	2,186
Lending To Financial Institutions	9,825
Investments - Net	73,154
Advances - Net	44,943
Operating Fixed Assets	2,957
Deferred Tax Assets	1,394
Other Assets	4,132
TOTAL ASSETS	140,336
LIABILITIES	
Bills Payable	-
Borrowings From Financial Institution	57,288
Deposits And Other Accounts	17,580
Sub-ordinated Loans	-
Liabilities Against Assets Subject To Finance Lease	18
Deferred Tax Liabilities	-
Other Liabilities	7,216
TOTAL LIABILITIES	82,102
NET ASSETS	58,235
NET ASSETS REPRESENTED BY: -	
Share Capital	48,278
Reserves	7,170
Unappropriated Profit	2,135
Share Holders' Equity	57,583
Surplus/Deficit On Revaluation Of Assets	651
TOTAL	58,235
OPERATING POSITION	
Mark-Up/ Return/Interest Earned	6,786
Mark-Up/ Return/Interest Expenses	3,620
Net Mark-Up / Interest Income	3,166
Provisions & Bad Debts Written Off Directly/(Reversals)	(863)
Net Mark-Up / Interest Income After Provision	4,029
Fees, Commission & Brokerage Income	(755)
Dividend Income	168
Income From Dealing In Foreign Currencies	21
Other Income	361
Total Non - Markup / Interest Income	(205)
	3,823
Administrative Expenses	1,433
Other Expenses	4
Total Non-Markup/Interest Expenses	1,437
Profit before Tax and Extra ordinary Items	2,386
Extra ordinary/unusual Items -- Gain/(Loss)	-
PROFIT/ (LOSS) BEFORE TAXATION	2,386
Taxation	673
PROFIT/ (LOSS) AFTER TAX	1,714

Annex-VIII

Capital Structure and Capital Adequacy Ratio of Banks and DFIs – June 30, 2010

(Amount in million Rupees)

		All Banks/DFIs	Public Banks	Foreign Banks	Private Sector Banks	Specialized Banks	DFIs	All Banks
Equity								
1.1	Fully Paid-up Capital/Capital Deposited with SBP	410,879.2	34,254.3	35,148.0	280,220.0	15,507.0	45,750.0	365,129.2
1.2	Balance in Share Premium Account	13,448.8	37.9	-	10,883.1	-	2,527.8	10,921.0
1.3	Reserve for issue of Bonus shares	-	-	-	-	-	-	-
1.4	General Reserves as disclosed on the Balance Sheet (including statutory reserve)	117,471.3	16,953.5	92.7	89,751.9	3,510.5	7,162.6	110,308.7
1.5	Un-appropriated/Unremitted profits (net of accumulated losses, if any)	99,174.5	54,621.9	1,315.2	65,773.9	(24,671.2)	2,134.7	97,039.8
1.6	Minority interest	-	-	-	-	-	-	-
1.7	Sub-Total (1.1 to 1.5)	640,973.7	105,867.5	36,555.9	446,628.9	(5,653.6)	57,575.1	583,398.6
1.8	Deductions	-	-	-	-	-	-	-
1.9	Goodwill	61,202.3	638.6	241.3	60,292.5	14.2	15.6	61,186.6
1.10	Shortfall in Provisions required against Classified assets	1,799.5	-	-	1,641.1	158.5	-	1,799.5
1.11	Deficit on account of revaluation of AFS investment	4,580.5	1,101.9	311.4	1,299.5	419.1	1,448.6	3,131.9
1.12	Any increase in equity capital resulting from a securitization transaction	54.8	-	-	54.8	-	-	54.8
1.13	Investments in TFCs of other banks	937.4	-	-	495.2	-	442.1	495.2
1.14	Other Deductions	11,848.2	2,140.4	-	8,393.5	157.7	1,156.5	10,691.7
1.15	Sub-Total (1.7 to 1.10)	80,422.6	3,880.9	552.7	72,176.7	749.4	3,062.9	77,359.7
1.15	Total Eligible Tier 1 capital	560,551.1	101,986.6	36,003.1	374,452.2	(6,403.1)	54,512.2	506,038.9
Supplementary Capital								
2.1	Freely available General Provisions or reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	12,864.5	1,957.1	580.5	8,803.4	1,284.3	239.1	12,625.3
2.2	Revaluation reserves eligible upto 45%	34,642.1	10,035.4	5.0	21,787.4	2,106.1	708.2	33,933.9
2.3	Foreign Exchange Translation Reserves	22,799.6	7,143.5	-	15,656.1	-	-	22,799.6
2.4	Undisclosed reserves	-	-	-	-	-	-	-
2.5	Subordinated debt-up to maximum of 50% of total equity	40,200.1	-	-	36,995.8	3,204.3	-	40,200.1
2.6	Total Tier 2 Supplementary Capital(2.1 - 2.5)	110,241.0	19,136.0	585.5	82,977.4	6,594.7	947.3	109,293.7
2.7	Deductions	-	-	-	-	-	-	-
2.8	Other deductions	11,848.2	2,140.4	-	8,393.5	157.7	1,156.5	10,691.7
2.9	Total Deductions	11,848.2	2,140.4	-	8,393.5	157.7	1,156.5	10,691.7
2.10	Total eligible tier 2 capital	98,392.8	16,995.6	585.5	74,583.9	6,437.0	(209.2)	98,602.0
2.11	Eligible tier 3 (as worked out in 3.9 below)	-	-	-	-	-	-	-
2.12	Total Supplementary Capital eligible for MCR(maximum upto 100% of Total Equity)	96,688.3	16,995.6	585.5	74,583.9	4,732.4	(209.2)	96,897.4
2.13	TOTAL CAPITAL (1.12+2.8)	657,239.4	118,982.3	36,588.7	449,036.0	(1,670.6)	54,303.0	602,936.3
Risk Weighted Amounts								
3.1	Total Credit Risk Weighted Assets	3,557,267.4	666,855.2	119,843.4	2,606,493.8	97,535.3	66,539.6	3,490,727.7
3.2	Total Market Risk Weighted Assets	267,849.0	78,169.5	13,854.8	151,538.2	56.5	24,230.0	243,619.0
3.3	Total Operational Risk Assets	615,738.2	108,788.1	27,623.6	450,987.0	17,239.5	11,100.1	604,638.2
3.4	Total Risk Weighted Amount	4,440,854.6	853,812.7	161,321.8	3,209,019.1	114,831.4	101,869.7	4,338,984.9
Capital Adequacy Ratios								
3.5	Tier 1 capital to Total Risk Weighted Amount	12.6%	11.9%	22.3%	11.7%	-5.6%	53.5%	11.7%
3.6	Total Capital Adequacy Ratio	14.8%	13.9%	22.7%	14.0%	-1.5%	53.3%	13.9%
OTHER DEDUCTIONS FROM TIER 1 AND TIER 2 CAPITAL								
4.1	Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	17,956.8	2,438.0	-	15,122.2	315.5	81.1	17,875.7
4.2	Significant minority investments in banking, securities and other financial entities (para 1.1 scope of Application)	5,190.2	1,842.8	-	1,458.9	-	1,888.5	3,301.7
4.3	Equity holdings (majority or significant minority) in an insurance subsidiary (para 1.1 scope of Application)	512.3	-	-	168.9	-	343.4	168.9
4.4	Significant minority and majority investments in commercial entities exceeding 15% of bank's capital	-	-	-	-	-	-	-
4.5	Securitization exposure subject to deduction (para 4.3.1 of instructions)	-	-	-	-	-	-	-
4.6	Others	37.1	-	-	37.1	-	-	37.1
4.7	Total Deductible Items to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital	23,696.4	4,280.8	-	16,787.1	315.5	2,313.1	21,383.3

Annex-IX

Group-wise Composition of Banks

June 30, 2010

2007	2008	2009	Jun-10
<u>A. Public Sector Com. Banks (4)</u> National Bank of Pakistan First Women Bank Ltd. The Bank of Khyber The Bank of Punjab	<u>A. Public Sector Com. Banks (4)</u> National Bank of Pakistan First Women Bank Ltd. The Bank of Khyber The Bank of Punjab	<u>A. Public Sector Com. Banks (4)</u> National Bank of Pakistan First Women Bank Ltd. The Bank of Khyber The Bank of Punjab	<u>A. Public Sector Com. Banks (4)</u> National Bank of Pakistan First Women Bank Ltd. The Bank of Khyber The Bank of Punjab
<u>B. Local Private Banks (26)</u> Askari Bank Ltd. Bank Alfalah Ltd. Bank AL Habib Ltd. Mybank Ltd. Faysal Bank Ltd. Habib Metropolitan Bank Ltd. KASB Bank Ltd. ABN AMRO Bank (Pakistan) Ltd. Saudi Pak Commercial Bank Ltd. PICIC Commercial Bank Ltd. Soneri Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. MCB Bank Ltd. Allied Bank Ltd. United Bank Ltd. Meezan Bank Ltd. NIB Bank Ltd. SAMB Bank Ltd. Habib Bank Ltd. Atlas Bank Ltd. Arif Habib Bank Ltd. Dubai Islamic Bank Pakistan Ltd. BankIslami Pakistan Ltd. JS Bank Ltd. Emirates Global Islamic Bank Ltd. Dawood Islamic Bank Ltd	<u>B. Local Private Banks (25)</u> Askari Bank Ltd. Bank Alfalah Ltd. Bank AL Habib Ltd. Mybank Ltd. Faysal Bank Ltd. Habib Metropolitan Bank Ltd. KASB Bank Ltd. The Royal Bank of Scotland Ltd. Saudi Pak Commercial Bank Ltd. Soneri Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. MCB Bank Ltd. Allied Bank Ltd. United Bank Ltd. Meezan Bank Ltd. NIB Bank Ltd. SAMB Bank Ltd. Habib Bank Ltd. Atlas Bank Ltd. Arif Habib Bank Ltd. Dubai Islamic Bank Pakistan Ltd. BankIslami Pakistan Ltd. JS Bank Ltd. Emirates Global Islamic Bank Ltd. Dawood Islamic Bank Ltd	<u>B. Local Private Banks (25)</u> Askari Bank Ltd. Bank Alfalah Ltd. Bank AL Habib Ltd. Mybank Ltd. Faysal Bank Ltd. Habib Metropolitan Bank Ltd. KASB Bank Ltd. The Royal Bank of Scotland Ltd. Silk Bank Ltd Soneri Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. MCB Bank Ltd. Allied Bank Ltd. United Bank Ltd. Meezan Bank Ltd. NIB Bank Ltd. SAMB Bank Ltd. Habib Bank Ltd. Atlas Bank Ltd. Arif Habib Bank Ltd. Dubai Islamic Bank Pakistan Ltd. BankIslami Pakistan Ltd. JS Bank Ltd. Emirates Global Islamic Bank Ltd. Dawood Islamic Bank Ltd.	<u>B. Local Private Banks (25)</u> Askari Bank Ltd. Bank Alfalah Ltd. Bank AL Habib Ltd. Mybank Ltd. Faysal Bank Ltd. Habib Metropolitan Bank Ltd. KASB Bank Ltd. The Royal Bank of Scotland Ltd. Silk Bank Ltd* Soneri Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. MCB Bank Ltd. Allied Bank Ltd. United Bank Ltd. Meezan Bank Ltd. NIB Bank Ltd. SAMB Bank Ltd. Habib Bank Ltd. Atlas Bank Ltd. Arif Habib Bank Ltd. * Dubai Islamic Bank Pakistan Ltd. BankIslami Pakistan Ltd. JS Bank Ltd. Emirates Global Islamic Bank Ltd. Dawood Islamic Bank Ltd.
<u>C. Foreign Banks (6)</u> Albaraka Islamic Bank B.S.C. Bank of Tokyo - Mitsubishi UFJ, Ltd. Deutsche Bank AG Citibank N.A. Oman International Bank S.A.O.G. The Hongkong & Shanghai Banking Corporation Ltd.	<u>C. Foreign Banks (7)</u> Albaraka Islamic Bank B.S.C. Bank of Tokyo - Mitsubishi UFJ, Ltd. Deutsche Bank AG Citibank N.A. Oman International Bank S.A.O.G. Barclays Bank PLC HSBC Bank Middle East Ltd.	<u>C. Foreign Banks (7)</u> Albaraka Islamic Bank B.S.C. Bank of Tokyo - Mitsubishi UFJ, Ltd. Deutsche Bank AG Citibank N.A. Oman International Bank S.A.O.G. Barclays Bank PLC HSBC Bank Middle East Ltd.	<u>C. Foreign Banks (7)</u> Albaraka Islamic Bank B.S.C. Bank of Tokyo - Mitsubishi UFJ, Ltd. Deutsche Bank AG Citibank N.A. Oman International Bank S.A.O.G. Barclays Bank PLC HSBC Bank Middle East Ltd.
<u>D. Specialized Banks (4)</u> Zarai Taraqati Bank Ltd. Industrial Development Bank of Pakistan Punjab Provincial Co-operative Bank Ltd. SME Bank Ltd.	<u>D. Specialized Banks (4)</u> Zarai Taraqati Bank Ltd. Industrial Development Bank of Pakistan Punjab Provincial Co-operative Bank Ltd. SME Bank Ltd.	<u>D. Specialized Banks (4)</u> Zarai Taraqati Bank Ltd. Industrial Development Bank of Pakistan Punjab Provincial Co-operative Bank Ltd. SME Bank Ltd.	<u>D. Specialized Banks (4)</u> Zarai Taraqati Bank Ltd. Industrial Development Bank of Pakistan Punjab Provincial Co-operative Bank Ltd. SME Bank Ltd.
<u>All Commercial Banks (36)</u> Include A + B + C	<u>All Commercial Banks (36)</u> Include A + B + C	<u>All Commercial Banks (36)</u> Include A + B + C	<u>All Commercial Banks (36)</u> Include A + B + C
<u>All Banks (40)</u> Include A + B + C + D	<u>All Banks (40)</u> Include A + B + C + D	<u>All Banks (40)</u> Include A + B + C + D	<u>All Banks (40)</u> Include A + B + C + D

* Name of "ARIF HABIB BANK LIMITED" has been changed to "SUMMIT BANK LIMITED" with effect from August 18, 2010 vide BPRD Notification NO. BPRD (R&P-02)/131.03(4)/2010/5722 dated August 16, 2010.

List of Abbreviations

ADD	Authorized Derivatives Dealer
ADR	Advances to Deposits Ratio
AFS	Available For Sale
ALM	Asset Liability Management
BIA	Basic Indicator Approach
Bps	Basis Points
CAR	Capital Adequacy Ratio
CB	Commercial Bank
CCF	Credit Conversion Factor
CCS	Cross Country Swaps
CDNS	Central Directorate of National Saving
CPI	Consumer Price Index
CPV	Credit Portfolio View
CRR	Cash Reserve Requirements
CRWA	Credit Risk Weighted Amounts
CY	Calendar Year
DFIs	Development Finance Institutions
ERF	Export Refinance
EURIBOR	Euro Interbank Offered Rate
EXR	Exchange Rate
FB	Foreign Bank
FDBR	Financial Derivatives Business Regulations
FDR	Financing to Deposits Ratio
FRA	Forward Rate Agreements
FSV	Forced Sale Value
GDP	Gross Domestic Product
GoP	Government of Pakistan
HFT	Held For Trading
HTM	Held-to-Maturity
IBIs	Islamic Banking Institutions
IRS	Interest Rate Swaps

KIBOR	Karachi Interbank Offered Rate
KSE	Karachi Stock Exchange
LIBOR	London Interbank Offered Rate
LoLR	Lender of Last Resort
LPB	Local Private Bank
LR	Interest Rate
LSM	Large Scale Manufacturing
MCR	Minimum Capital Requirement
MRWA	Market Risk Weighted Amounts
MTB	Market Treasury Bill
NII	Net Interest Income
NMI	Non-Market Maker Financial Institution
NOP	Net Open Position
NPF	Non Performing Finance
NPL	Non Performing Loan
NPLR	Loan Infection Ratio
NSS	National Saving Scheme
OMO	Open Market Operation
ORWA	Operational Risk Weighted Amounts
OTC	Over the Counter
PAT	Profit After Tax
PIB	Pakistan Investment Bond
PKR	Pak Rupee
PSCB	Public Sector Commercial Bank
PSE	Public Sector Enterprise
PTCs	Participation Term Certificates
QoQ	Quarter on Quarter
QPR	Quarterly Performance Review
QRC	Quarterly Report of Condition
ROA	Return on Asset
ROE	Return on Equity
RSA	Rate Sensitive Assets

RSL	Rate Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized approach
SB	Specialized Bank
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SLR	Statutory Liquidity Requirements
SME	Small and Medium Enterprise
TFCs	Term Finance Certificates
USD	United States Dollar
WALR	Weighted Average Lending rate
WPI	Wholesale Price Index
YoY	Year on Year

Glossary

Capital Adequacy Ratio is the amount of risk-based capital as a percent of risk-weighted assets.

Coefficient of Variance The coefficient of variance is the ratio of Standard Deviation to Arithmetic Mean. The coefficient is a useful statistical tool for comparing the degree of volatility of more than one data sets when their means are significantly different from each other.

Consumer Financing means any financing allowed to individuals for meeting their personal, family or household needs. The facilities categorized as Consumer Financing include credit cards, auto loans, housing finance, consumer durables and personal loans.

Corporate means and includes public limited companies and such entities, which do not come under the definition of SME.

Credit risk arises from the potential that a borrower or counter-party will fail to perform an obligation or repay a loan.

Discount rate is the rate at which SBP provides three-day repo facility to banks, acting as the lender of last resort.

Duration (Macaulay's Duration) is a time weighted present value measure of the cash flow of a loan or security that takes into account the amount and timing of all promised interest and principal payments associated with that loan or security. It shows how the price of a bond is likely to react to different interest rate environments. A bond's price is a function of its coupon, maturity and yield.

Force Sale Value (FSV) means the value that can currently be obtained by

selling the mortgaged / pledged assets in a forced / distressed sale conditions. This value fully reflects the possibility of price fluctuations.

GAP is the term commonly used to describe the rupee volume of the interest-rate sensitive assets versus interest-rate sensitive liabilities mismatch for a specific time frame; often expressed as a percentage of total assets.

Gross income is the net interest income (before provisions) plus non-interest income; the income available to cover the operating expenses.

Interbank rates are the two-way quotes namely bid and offer rates quoted in interbank market are called as interbank rates.

Interest rate risk is the exposure of an institution's financial condition to adverse movement in interest rates, whether domestic or worldwide. The primary source of interest rate risk is difference in timing of the re-pricing of bank's assets, liabilities and off-balance sheet instruments.

Intermediation cost is the administrative expenses divided by the average deposits and borrowings.

Liquid assets are the assets that are easily and cheaply turned into cash – notably cash and short-term securities. It includes cash and balances with banks, call money lending, lending under repo and investment in government securities.

Liquidity risk is the risk that the bank will be unable to accommodate decreases in liabilities or to fund increases in assets. The liquidity represents the bank's ability to efficiently and economically

accommodate decreases in deposits and to fund increases in loan demand without negatively affecting its earnings.

Market risk is the risk that changes in the market rates and prices will impair an obligor's ability to perform under the contract negotiated between the parties. Market risk reflects the degree to which changes in interest rates, foreign exchange rates, and equity prices can adversely affect the earnings of a bank.

Net interest income is the total interest income less total interest expense. This residual amount represents most of the income available to cover expenses other than the interest expense.

Net Interest Margin (NIM) is the net interest income as a percent of average earning assets.

Net loans are the loans net of provision held for NPLs.

Net Non-Performing Loans (NPLs) is the value of non-performing loans minus provision for loan losses.

Net NPLs to net loans means net NPLs as a percent of net loans. It shows the degree of loans infection after making adjustment for the provision held.

Non-Performing Loans (NPLs) are loans and advances whose mark-up/interest or principal is overdue by 90 days or more from the due date.

NPLs to loans ratio/Infection ratio stands for NPLs as a percent of gross loans.

Paid-up capital is the equity amount actually paid by the shareholders to a company for acquiring its shares.

Rate Sensitive Assets (RSA) are assets susceptible to interest rate movements; that will be re-priced or will

have a new interest rate associated with them over the forthcoming planning period.

Repricing risk arises from timing differences in the maturity of fixed rate and the repricing of floating rates as applied to banks' assets, liabilities and off-balance sheet positions

Return on assets measures the operating performance of an institution. It is the widely used indicator of earning and is calculated as net profit as percentage of average assets.

Return on equity is a measure that indicates the earning power of equity and is calculated as net income available for common stockholders to average equity

Risk weighted Assets: Total risk weighted assets of a bank would comprise two broad categories: credit risk-weighted assets and market risk-weighted assets. Credit risk weighted assets are calculated from the adjusted value of funded risk assets i.e. on balance sheet assets and non-funded risk exposures i.e. off-balance sheet item. On the other hand for market risk-weighted assets, first the capital charge for market risk is calculated and then on the basis of this charge amount the value of Market Risk Weighted Assets is derived.

Secondary market is a market in which securities are traded following the time of their original issue.

SME means an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing/ service concern) and 50 persons (if it is trading concern) and also fulfils the following criteria of either 'a' and 'c' or 'b' and 'c' as relevant:

(a) A trading / service concern with total assets at cost excluding land and building upto Rs50 million.

(b) A manufacturing concern with total assets at cost excluding land and building upto Rs100 million.

(c) Any concern (trading, service or manufacturing) with net sales not exceeding Rs300 million as per latest financial statements.

Tier-I capital: The risk based capital system divides capital into two tiers-core capital (Tier I) and supplementary capital (Tier II and Tier III). Tier 1 capital includes fully paid up capital, balance in share premium account, reserve for issue of bonus shares, general reserves as disclosed on the balance-sheet and un-appropriated /un-remitted profit (net of accumulated losses, if any).

Tier-II capital or Supplementary Capital (Tier II & III) is limited to 100

percent of core capital (Tier I). Tier II includes; general provisions or general reserves for loan losses, revaluation reserves, exchange translation reserves, undisclosed reserves and subordinated debt.

Tier-III capital consists of short-term subordinated debt and is solely held for the purpose of meeting a proportion of the capital requirements for market risks.

Yield risk is the risk that arises out of the changes in interest rates on a bond or security when calculated as that rate of interest, which, if applied uniformly to future time periods sets the discounted value of future bond coupon and principal payments equal to the current market price of the bond.

Yield curve risk materializes when unanticipated shifts have an adverse effect on the bank's income or underlying economic value.